UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2020

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM TO

Commission File Number: 001-38437

OP BANCORP

(Exact Name of Registrant as Specified in its Charter)

California	**81-3114676**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1000 Wilshire Blvd., Suite 500, Los Angeles, CA	**90017**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (213) 892-9999

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, no par value	OPBK	NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☐ NO ☒

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES ☐ NO ☒

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
Emerging growth company	☒		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☒

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

The aggregate market value of the common stock held by non-affiliates of the Registrant, based on the closing price of the common stock as of the last business day of the Registrant's most recently completed second fiscal quarter, June 30, 2020 as reported on the NASDAQ Global Market, was approximately $81,626,738.

The number of shares outstanding of the Registrant's Common Stock as of March 10, 2021 was 15,027,635.

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Cautionary Note Regarding Forward-Looking Statements

Certain matters set forth herein (including any exhibits hereto) constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, including forward-looking statements relating to the Company's current business plans and expectations regarding future operating results. Forward-looking statements may include, but are not limited to, the use of forward-looking language, such as "likely result in," "expects," "anticipates," "estimates," "forecasts," "projects," "intends to," or may include other similar words or phrases, such as "believes," "plans," "trend," "objective," "continues," "remains," or similar expressions, or future or conditional verbs, such as "will," "would," "should," "could," "may," "might," "can," or similar verbs.

These forward-looking statements are subject to risks and uncertainties that could cause actual results, performance or achievements to differ materially from those projected. These risks and uncertainties, some of which are beyond our control, include, but are not limited to:

- the uncertainties related to the coronavirus pandemic including, but not limited to, the potential adverse effect of the pandemic on the economy, our employees and customers, and our financial performance;
- the impact of the federal CARES Act and the significant additional lending activities undertaken by the Company in connection with the Small Business Administration's Paycheck Protection Program enacted thereunder, including risks to the Company with respect to the uncertain application by the Small Business Administration of new borrower and loan eligibility, forgiveness and audit criteria;
- business and economic conditions, particularly those affecting the financial services industry and our primary market areas;
- our ability to successfully manage our credit risk and the sufficiency of our allowance for loan losses;
- factors that can impact the performance of our loan portfolio, including real estate values and liquidity in our primary market areas, the financial health of our commercial borrowers, the success of construction projects that we finance, including any loans acquired in acquisition transactions;
- our ability to effectively execute our strategic plan and manage our growth;
- interest rate fluctuations, which could have an adverse effect on our profitability;
- liquidity issues, including fluctuations in the fair value and liquidity of the securities we hold for sale and our ability to raise additional capital, if necessary;
- external economic and/or market factors, such as changes in monetary and fiscal policies and laws, including the interest rate policies of the Federal Reserve, inflation or deflation, changes in the demand for loans, and fluctuations in consumer spending, borrowing and savings habits, which may have an adverse impact on our financial condition;
- continued or increasing competition from other financial institutions, credit unions, and non-bank financial services companies, many of which are subject to different regulations than we are;
- challenges arising from unsuccessful attempts to expand into new geographic markets, products, or services;
- restraints on the ability of Open Bank to pay dividends to us, which could limit our liquidity;
- increased capital requirements imposed by banking regulators, which may require us to raise capital at a time when capital is not available on favorable terms or at all;
- a failure in the internal controls we have implemented to address the risks inherent to the business of banking;
- inaccuracies in our assumptions about future events, which could result in material differences between our financial projections and actual financial performance;
- changes in our management personnel or our inability to retain, motivate and hire qualified management personnel;

- disruptions, security breaches, or other adverse events, failures or interruptions in, or attacks on, our information technology systems;
- disruptions, security breaches, or other adverse events affecting the third-party vendors who perform several of our critical processing functions;
- an inability to keep pace with the rate of technological advances due to a lack of resources to invest in new technologies;
- risks related to potential acquisitions;
- political developments, uncertainties or instability, catastrophic events, acts of war or terrorism, or natural disasters, such as earthquakes, drought, pandemic diseases (such as the coronavirus) or extreme weather events, any of which may affect services we use or affect our customers, employees or third parties with which we conduct business;
- incremental costs and obligations associated with operating as a public company;
- the impact of any claims or legal actions to which we may be subject, including any effect on our reputation;
- compliance with governmental and regulatory requirements, including the Dodd-Frank Act and others relating to banking, consumer protection, securities and tax matters, and our ability to maintain licenses required in connection with commercial mortgage origination, sale and servicing operations;
- changes in federal tax law or policy; and
- our ability to the manage the foregoing.

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this report. Because of these risks and other uncertainties, our actual future results, performance or achievement, or industry results, may be materially different from the results indicated by the forward looking statements in this report. In addition, our past results of operations are not necessarily indicative of our future results. You should not rely on any forward looking statements, which represent our beliefs, assumptions and estimates only as of the dates on which they were made, as predictions of future events. Any forward-looking statement speaks only as of the date on which it is made, and we do not undertake any obligation to update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

PART I

Item 1. Business.

Our Company

We are a bank holding company headquartered in Los Angeles, California. Our commercial banking activities are operated through Open Bank, our banking subsidiary. We offer commercial banking services to small and medium-sized businesses, their owners and retail customers with a focus on the Korean-American community. Having grown our branch and loan production office network over the past ten years, we now operate through nine full service branches located in the greater metropolitan area of Los Angeles, California, Orange County, California, Santa Clara County, California, and Carrollton, Texas, and four loan production offices in the Korean-American communities in Atlanta, Georgia, Aurora, Colorado, and Lynnwood and Seattle, Washington. We converted our Dallas loan production office to a full service branch with a commercial lending center in Carrollton, Texas in the second quarter of 2019.

As of December 31, 2020, we had consolidated total assets of $1.37 billion, total deposits of $1.20 billion, total loans outstanding (net of $15.4 million of allowance for loan losses) of $1.08 billion, and total shareholders' equity of $143.4 million. We completed our initial public offering in March 2018 and our common stock is listed on the Nasdaq Global Market.

We believe that we provide our customers with a high degree of service, convenience and the financial products they need to achieve their financial objectives, by offering a customer-oriented product mix, competitive pricing, and convenient locations. Our lending activities are diversified and include commercial real estate, commercial and industrial, SBA, home mortgage, and consumer loans. We generally lend in markets where we have a physical presence through our branch and loan production offices. We attract retail deposits through our branch network which offers a wide range of deposit products for business and consumer banking customers. We offer a multitude of other products and services to our customers to complement our lending and deposit business.

We have a strong, values-based corporate culture rooted in personal community-based relationship banking that permeates throughout our entire organization. We strive to provide quality customer service that exceeds our customers' expectations. We also heavily invest in our Korean-American communities through our annual contributions to the Open Stewardship Foundation. We believe that customers value a banking partner who is knowledgeable about their business needs with a willingness and commitment to reinvest back into the community. We convey to our customers that banking with us indirectly provides them an opportunity to contribute to the community. We believe our strategic approach creates opportunities for expanding our banking relationships with new and existing customers who value personalized attention, local decision making and view us as an alternative to the large-consolidated Korean-American financial institutions.

We established the Open Stewardship Foundation in 2011 to actively support civic organizations, schools and other eligible charitable non-profit organizations that provide public benefit services in the communities we serve. The Foundation operates through a board of directors that includes individuals who are members of our board of directors and executive management team, including our President and Chief Executive Officer and our Chairman of the Board. The Foundation board of directors reviews and approves award grants. We have committed to contribute annually 10% of our consolidated net income after taxes to the Foundation. Since inception, we have donated over $7.4 million to the Foundation, aiding over 190 local non-profits.

We plan to continue to leverage our experienced management team, our personal relationship, community banking focus in the attractive Korean-American communities in which we serve, and our diversified lending approach to drive future organic growth. While other institutions frequently enter new geographies through acquisitions, we have grown our geographic footprint through de novo branches, while remaining true to our business model. We have continued our organic growth while further diversifying our geographical concentration by opening our ninth full service branch in Carrollton, Texas in the second quarter of 2019. We are also targeting markets where we currently have loan production offices for future expansion and development of de novo branches. Supplementing deposit products to our borrowers in those markets provides the profitability to support the investment in full service branches. Although our growth has historically been organic, we are amenable to considering opportunistic strategic acquisitions to enhance our long-term growth strategy.

Our Strategies

Our vision is to be the leading Korean-American community-based commercial bank in the Korean-American communities we serve, to meet the financial needs of underserved small- and medium-sized businesses and individuals, and to give back to these communities.

Our more specific strategic initiatives are discussed below.

- ***Leverage our Franchise in the Korean-American Communities We Serve***. The Korean-American banking landscape has seen increased consolidation of the larger Korean-American financial institutions that do business in our market areas. We believe that the customers at these larger institutions will look for an alternative banking experience tailored towards their specific financial objectives. We strive to be the most prominent alternative to the larger Korean-American financial institutions. We differentiate ourselves from our competitors by developing meaningful and personal relationships with our customers, and providing superior service. These qualities make Open Bank an attractive choice for small- to medium-sized businesses, professionals and individuals. Our strong financial performance and growth derives, in part, from small- and medium-sized businesses' and individuals' desire for quality, personal relationship banking, local and responsive decision making and flexible and competitive pricing of deposit and loan products. Our commitment to the Open Stewardship Foundation raises our profile and reinforces our position as a community partner committed to the success of the communities we serve.
- ***Focus on Organic Growth***. We intend to continue to grow organically. We believe the markets in which we operate currently provide meaningful opportunities to expand our commercial customer base and increase our market share. We also seek to offer our various banking products, including our deposit products, residential loan products and cash management services to our commercial loan and SBA borrowers, which we believe provides a basis for expanding our banking relationships. We believe we have built a scalable platform that will support our continual organic growth. Although we are currently focused on organic growth, we will also look for opportunistic strategic acquisitions that complement our commercial banking and the strong personal community-based relationship orientation of our franchise.
- ***Increase our Share of Lower-Cost Deposits***. We believe the quality of our deposit base and access to stable funding are key components of our success. We have a strong deposit base, characterized by a high level of core deposits, a high proportion of noninterest-bearing accounts and relatively low funding costs. As of December 31, 2020, deposits accounted for 98.1% of total liabilities. Core deposits, which we define as all deposits excluding time deposits exceeding $250,000, accounted for 83.3% of total deposits. Our cost of total deposits was 0.75% for the year ended December 31, 2020. To generate new accounts we employ conventional marketing and advertising initiatives and leverage our community commitment activities. Small businesses are a significant source of low cost deposits and represent opportunities for future growth. We believe that small business owners value both our ability to provide convenience to the banking activities and access to local, responsive decision makers. Commercial accounts also generally have higher deposit balances and transaction volumes than individual deposit accounts. We believe that our convenient branch network, personal relationship-driven culture, diversified product offering, and flexible pricing allow us to accelerate deposit growth. We plan to continue investing in our franchise brand, our community reputation, employees, and product capabilities to further improve customer loyalty with a view toward growing our high quality deposit portfolio.
- ***Branch Expansion***. We intend to continue our strategy of opening and developing de novo branches particularly into Korean-American populated areas. We have pursued this growth strategy since the beginning of 2012 when we only had one branch location. As of December 31, 2020, we had nine branches. Eight branches are in the greater metropolitan area of Los Angeles, California, Orange County, California, and Santa Clara County, California, and we opened our ninth branch in Carrollton, Texas in the second quarter of 2019. We will review future potential target areas for de novo expansion based on our ability to attract experienced bankers within such targeted regions. In addition, we currently operate four loan production offices located in Atlanta, Georgia, Aurora, Colorado, and Lynwood and Seattle, Washington. We will continue to look for additional markets to expand our loan production capabilities and, if we believe there are opportunities to develop deposit business in these markets, we may expand one or more loan production offices into de novo branches.

- ***Expand and Diversify our Commercial Lending***. We are committed to continuing to expand and grow our commercial loan portfolios, while maintaining what we believe are conservative underwriting standards. We expect to increase our commercial lending business in our expanding branch network, where we can continue to leverage our ability to develop personal, community-based relationships and leverage our quality service model into new opportunities. We believe we can leverage our personalized customer service, extensive knowledge of our local markets and high visibility community activities to attract and retain customers seeking alternatives to the larger Korean-American financial institutions.
- ***Preserve Our Asset Quality Through Disciplined Lending Practices***. Our approach to credit management uses well-defined policies and procedures, disciplined underwriting criteria and ongoing risk management. This approach has allowed us to maintain loan growth with a diversified portfolio of high quality assets. We have implemented policies and procedures for credit underwriting and administration, which have enabled us to maintain strong asset quality while at the same time growing our banking business. We believe our credit culture supports accountable bankers, who maintain an ability to expand our customer base as well as make sound decisions. As of December 31, 2020, our ratio of nonperforming assets to total assets was 0.07% and our ratio of nonperforming loans to total loans was 0.09%.

Our Competitive Strengths

Our management team has identified the following competitive strengths that we believe will allow us to continue to achieve our principal objective of increasing shareholder value and generating consistent earnings growth through the organic and strategic expansion of our commercial banking franchise:

- ***Experienced Leadership and Management Team***. Our experienced executive management team and senior leaders have exhibited the ability to strengthen shareholder value by consistently growing profitably. The members of our executive management team have, on average, more than 30 years' experience working for large, billion-dollar-plus financial institutions in our markets during various economic cycles. The members of our executive team have been with Open Bank for an average of six years. Our executive management team has instilled a transparent and entrepreneurial culture that rewards leadership, innovation, and problem solving.
- ***Personal Relationship-Based Customer Service***. We strive to differentiate ourselves from our competition by providing the best "relationship-based" services to small- and medium-sized businesses and their owners and the residents in the Korean-American communities in which we operate. We accomplish this by striving to provide our customers with a superior level of personal and responsive service delivered by experienced bankers in a manner that timely meets our customers' financial objectives. Our management team's significant banking and lending experience in our markets gives us a unique understanding of the commercial banking needs of our customers, which allows us to tailor our products and services to meet our customers' financial objectives. To enhance our relationships with our customers and to identify and meet their particular needs, each customer is assigned a relationship officer (including our SBA borrowers). Approximately 66% of our borrowers also have a deposit relationship with us, providing us with visibility into their liquidity profile and contributing to our ability to manage our asset quality.
- ***Strong Community Relationships***. A primary mission of Open Bank is to meet the financial services needs of underserved customers in our markets, and we strive to distinguish ourselves by giving back to these communities. In October 2011, we established the Open Stewardship Foundation to actively support local civic organizations, schools, and public services. We have committed to fund the Foundation in an amount equal to 10% of our annual consolidated net income after taxes. This commitment is in our annual operating budget each year. We believe that our community commitment distinguishes us from our competitors and enhances and expands business relationships within the Korean-American communities we serve. Since inception, we have donated over $7.4 million to the Foundation, aiding over 190 local non-profits. Our management team has strong ties and relationships within the Korean-American communities where we operate. The Foundation and our employees and board of directors are involved in community activities that enhance our relationships with a variety of industry leadership groups, including the Korean-American Federation of Los Angeles, the Korean-American Chamber of Commerce of Los Angeles, the Korean-American Manufacturers Association, the Korean-American CPA Society of Southern California, California KAGRO Association, and the Korean Real Estate Brokers Association of Southern California. Affiliation with these local organizations provide our management team with knowledge of local markets and industries, as well as market developments that may impact the evolving business environment in which we operate.

- ***Strong Risk Management Practices***. We place significant emphasis on risk management as an integral component of our organizational culture. We believe our comprehensive risk management system is designed to make sure that we have sound policies, procedures, and practices for the management of key risks under our risk framework (which includes market, operational, liquidity, interest rate sensitivity, credit, regulatory, legal and reputational risk) and that any exceptions to written policy are reported by senior management to our board of directors or audit committee. Our risk management practices are overseen by the chairman of our audit committee and the chairman of Open Bank’s risk and compliance committees, who have more than 30 years of combined banking experience, and our chief risk officer, who has more than 39 years of banking experience. We believe that our enterprise risk management philosophy has been important in gaining and maintaining the confidence of our various constituencies, along with growing our business and footprint within our markets. We also believe our strong risk management practices are manifested in our asset quality metrics.
- ***Efficient and Scalable Platform with Capacity to Support Our Growth***. Our management team has built an efficient and scalable corporate infrastructure within our commercial banking franchise, including the areas of banking processes, technology, data processing, underwriting and risk management, which we believe will support our continued growth. While expanding our infrastructure, several departmental functions have been outsourced to gain the experience of outside professionals, while at the same time achieving more favorable economics and cost-effective solutions. Such outsourced areas include the internal audit function, select loan review, interest rate risk management and stress testing. This outsourcing strategy is designed to control costs while adding enhanced controls and service levels. We believe that our scalable infrastructure will continue to allow us to efficiently and effectively manage our anticipated growth.

Market Area

We are headquartered in Los Angeles, California. We currently have one branch in the financial district of downtown Los Angeles, one branch in the fashion district directly adjacent to downtown Los Angeles, and three branches in Koreatown. We also operate a branch in Gardena, located in Los Angeles County, California and a branch in Buena Park, located in Orange County, California. In addition, we have one branch in northern California in Santa Clara. The economic base of these areas is heavily dependent on small- and medium-sized businesses. According to the U.S. Census Bureau, Asian-Americans accounted for 15.4% of the over 10.0 million residents in Los Angeles County as of July 1, 2019. We opened our ninth branch in Carrollton, Texas in the second quarter of 2019. We also operate loan production offices in Atlanta, Georgia, Aurora, Colorado, and Lynnwood and Seattle, Washington to support our SBA lending efforts.

Deposit Products

We offer customers traditional retail deposit products through our branch network and the ability to access their accounts through online and mobile banking platforms. We offer a variety of deposit accounts with a wide range of interest rates and terms such as demand, savings, money market and time deposits, with the goal of attracting a wide variety of customers, including small- to medium-sized businesses. We consider our core deposits, defined as all deposits except for time deposits exceeding $250,000, to be our primary and most valuable low-cost funding source for our lending business, and as of December 31, 2020, core deposits represented 83.3% of our total deposits. We strive to retain an attractive deposit mix from both large and small customers and a broad market reach, which has resulted in our top 10 customers accounting for only 11.9% of all deposits as of December 31, 2020. We believe our competitive pricing and products, convenient branch locations, and quality personal customer service enable us to attract and retain customer deposits. We employ conventional marketing and advertising initiatives and leverage our community commitment activities, including our Foundation, to generate new accounts. We typically require, depending on the circumstances and the type of relationship, our borrowers to maintain deposit accounts. Approximately 66% of our borrowers have a deposit relationship with us. Interest rates, maturity terms, service fees and withdrawal penalties are established on a periodic basis. Deposit rates and terms are based primarily on current operating strategies and market interest rates, liquidity requirements and our deposit growth goals. We utilize wholesale deposits to supplement our core retail deposits for funding purposes, including brokered accounts. As of December 31, 2020, wholesale deposits totaled $100.0 million, or 8.3% of total deposits. As of December 31, 2020, we had $1.20 billion of deposits, and our cost of deposits was 0.75% for the year ended December 31, 2020.

Lending Activities

Our lending strategy is to maintain a broadly diversified loan portfolio based on the type of customer (i.e., businesses versus individuals), type of loan product (e.g., owner occupied commercial real estate, commercial and industrial loans, etc.), geographic location and industries in which our business customers are engaged (e.g., manufacturing, retail, hospitality, etc.). We principally focus our lending activities on loans that we originate from borrowers located in our market areas. We serve the credit needs of high-quality business and individual borrowers in the communities that we serve.

We offer a variety of loans, including CRE loans (including loans secured by owner occupied commercial properties), SBA loans, and commercial and industrial loans to local manufacturing and industrial companies and other businesses. We also offer various consumer loans to individuals and professionals including residential real estate loans, and unsecured personal lines of credit. Lending activities originate from the relationships and efforts of our bankers, with an emphasis on providing banking solutions tailored to meet our customers' needs while maintaining our underwriting standards.

As of December 31, 2020, our loan portfolio consisted of the following:

	December 31, 2020 (dollars in thousands)
Commercial real estate	$ 651,684
Small business administration loans	211,376
Commercial and industrial	107,308
Home mortgage	128,211
Consumer	1,157
Gross loans receivable, net of unearned income	$ 1,099,736

For additional information concerning our loan portfolio, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Condition—Loan Portfolio."

Concentrations of Credit Risk. Most of our lending activity is conducted with businesses and individuals in our market areas. Our loan portfolio consists primarily of CRE loans, which were $651.7 million and constituted 59.2% of our total loans as of December 31, 2020, SBA loans, which were $211.4 million and constituted 19.2% of our total loans as of December 31, 2020, home mortgage loans, which were $128.2 million and constituted 11.7% of our total loans as of December 31, 2020, and commercial and industrial loans, including trade finance loans, which were $107.3 million and constituted 9.8% of our total loans as of December 31, 2020. Our commercial real estate loans are secured by first liens on real property. The remaining commercial and industrial loans are typically secured by general business assets, accounts receivable, inventory, real estate and/or the corporate guaranty of the borrower and personal guaranty of its principals. The geographic concentration subjects the loan portfolio to the general economic conditions within Southern California. The risks created by such concentrations have been considered by management in the determination of the adequacy of the allowance for loan losses. Management believes the allowance for loan losses is adequate to cover probable incurred losses in our loan portfolio as of December 31, 2020.

Sound risk management practices and appropriate levels of capital are essential elements of a sound commercial real estate lending program. Concentrations of commercial real estate exposures add a dimension of risk that compounds the risks inherent in individual loans. Interagency guidance on commercial real estate concentrations describe sound risk management practices, which include board and management oversight, portfolio management, management information systems, market analysis, portfolio stress testing and sensitivity analysis, credit underwriting standards, and credit risk review functions. Management has implemented these practices in order to monitor concentrations in commercial real estate in our loan portfolio.

Large Credit Relationships. As of December 31, 2020, the aggregate amount of loans to our 10 and 25 largest borrowers (including related entities) amounted to approximately $161.3 million, or 14.7% of total loans, and $271.6 million, or 24.7% of total loans, respectively.

Loan Underwriting and Approval. Historically, we believe we have made sound, high quality loans while recognizing that lending money involves a degree of business risk. We have loan policies designed to assist us in managing this business risk. These policies provide a general framework for our loan origination, monitoring and funding activities, while recognizing that not all risks can be anticipated. Open Bank's board of directors delegates loan authority, up to the board-approved limits, to its Loan & Credit Policy Committee, which is comprised of members of its board of directors. Our board of directors also delegates limited lending authority to our internal management loan committee, which is comprised of members of our executive management team. The objective of our approval process is to provide a disciplined, collaborative approach to larger credits while maintaining responsiveness to client needs.

Loan decisions are documented detailing the borrower's business, purpose of the loan, evaluation of the repayment source and the associated risks, evaluation of collateral, covenants and monitoring requirements, and the risk rating rationale. Our strategy for approving or disapproving loans is to follow conservative loan policies and apply consistent underwriting practices, which include, but are not limited to:

- maintaining close relationships among our customers and their designated banker to ensure ongoing credit monitoring and loan servicing;
- granting credit on a sound basis with full knowledge of the purpose and source of repayment for such credit;
- ensuring that primary and secondary sources of repayment are adequate in relation to the amount of the loan;
- developing and maintaining targeted levels of diversification for our loan portfolio as a whole and for loans within each category; and
- ensuring that each loan is properly documented and that any insurance coverage requirements are satisfied.

Managing credit risk is an enterprise-wide process. Our strategy for credit risk management includes well-defined, centralized credit policies, uniform underwriting criteria and ongoing risk monitoring and review processes for all credit exposures. Our processes emphasize early-stage review of loans, regular credit evaluations and management reviews of loans, which supplement the ongoing and proactive credit monitoring and loan servicing provided by our bankers. Our Chief Credit Officer provides company-wide credit oversight and periodically reviews all credit risk portfolios to ensure that the risk identification processes are functioning properly and that our credit standards are followed. In addition, a third-party loan review is performed to assist in the identification of problem assets and to confirm our internal risk rating of loans. We attempt to identify potential problem loans early in an effort to seek aggressive resolution of these situations before the loans become a loss, record any necessary charge-offs promptly and maintain adequate allowance levels for probable loan losses inherent in the loan portfolio.

Our loan policies generally include other underwriting guidelines for loans collateralized by real estate. These underwriting standards are designed to determine the maximum loan amount that a borrower has the capacity to repay based upon the type of collateral securing the loan and the borrower's income. Such loan policies include maximum amortization schedules and loan terms for each category of loans collateralized by liens on real estate.

In addition, our loan policies provide guidelines for: personal guarantees; an environmental review; loans to employees, executive officers and directors; problem loan identification; maintenance of an adequate allowance for loan losses and other matters relating to lending practices.

Lending Limits. Our lending activities are subject to a variety of lending limits imposed by federal law. In general, the Bank is subject to a legal lending limit on loans to a single borrower based on the Bank's capital level. The dollar amounts of the Bank's lending limit increases or decreases as the Bank's capital increases or decreases. The Bank is able to sell participations in its larger loans to other financial institutions, which allows it to manage the risk involved in these loans and to meet the lending needs of its customers that require extensions of credit in excess of these limits.

As of December 31, 2020, the Bank's legal lending limit on loans to a single borrower was $38.8 million for secured loans and $23.3 million for unsecured loans.

Our loan policies provide general guidelines for loan-to-value ratios that restrict the size of loans to a maximum percentage of the value of the collateral securing the loans, which percentage varies by the type of collateral. Our internal loan-to-value limitations follow limits established by applicable law.

We provide a variety of loans to meet our customers' needs. The section below discusses our general loan categories:

Commercial Real Estate Loans. We offer commercial real estate loans collateralized by real estate, which may be owner occupied or non-owner occupied real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment is dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. We believe that our management team has extensive knowledge of our borrowers and the markets where we operate. We further believe that our management team takes a conservative approach to commercial real estate lending, focusing on what we believe to be high quality credits with low loan-to-value ratios, income-producing properties with strong cash flow characteristics, and strong collateral profiles.

We require our commercial real estate loans to be secured by what we believe to be well-managed property with adequate margins, and we generally obtain a personal guarantee from responsible parties. Our commercial real estate loans are secured by professional office buildings, shopping centers, manufacturing facilities, and special purpose properties such as restaurants, retail operations and service stations. We originate both fixed- and adjustable-rate loans with terms up to 25 years. Fixed-rate loans have provisions that allow us to call the loan after five to seven years. Adjustable-rate loans are generally based on the prime rate and adjust with the prime rate. At December 31, 2020, approximately 65% of the commercial real estate loan portfolio consisted of fixed rate loans. Loan amounts generally do not exceed 70% of the lesser of the appraised value or the purchase price depending on the property audits we utilize.

Our total commercial real estate loan portfolio totaled $651.7 million at December 31, 2020. We had no non-performing commercial real estate loans as of December 31, 2020.

Payments on loans secured by such properties are often dependent on the successful operation (in the case of owner occupied real estate) or management (in the case of non-owner occupied real estate) of the properties. Accordingly, repayment of these loans may be subject to adverse conditions in the real estate market or the economy to a greater extent than other types of loans. In underwriting commercial real estate loans, we seek to minimize these risks in a variety of ways, including giving careful consideration to the property's age, condition, operating history, future operating projections, current and projected market rental rates, vacancy rates, location and physical condition. The underwriting analysis also may include credit verification, reviews of appraisals, environmental hazard reports, the borrower's liquidity and leverage, management experience of the owners or principals, economic condition and industry trends.

Small Business Administration Loans. We offer SBA loans for qualifying businesses for loan amounts up to $5 million. The Bank primarily extends SBA loans known as SBA 7(a) loans and SBA 504 loans. SBA 7(a) loans are typically extended for working capital needs, purchase of inventory, purchase of machinery and equipment, debt refinance, business acquisitions, start-up financing or to purchase or construct owner-occupied commercial property. SBA 7(a) loans are typically term loans with maturities up to 10 years for loans not secured by real estate and up to 25 years for real estate secured loans. SBA loans are fully amortizing with monthly payments of principal and interest. SBA 7(a) loans are typically floating rate loans that are secured by business assets and/or real estate. Depending on the loan amount, each loan is typically guaranteed 75% to 85% by the SBA, with a maximum gross loan amount to any one small business borrower of $5 million and a maximum SBA guaranteed amount of $3.75 million.

We are generally able to sell the guaranteed portion of the SBA 7(a) loans in the secondary market at a premium, while earning servicing fee income on the sold portion over the remaining life of the loan. In addition to the interest yield earned on the unguaranteed portion of the SBA 7(a) loans that are not sold, we recognize income from gains on sales and from loan servicing on the SBA 7(a) loans that are sold.

SBA 504 loans are typically extended for the purpose of purchasing owner-occupied commercial real estate or long-term capital equipment. SBA 504 loans are typically extended for up to 20 years or the life of the asset being financed. SBA 504 loans are financed as a participation loan between the Bank and the SBA through a Certified Development Company ("CDC"). Generally, the loans are structured to give the Bank a 50% first deed of trust ("TD"), the CDC a 40% second TD, and the remaining 10% is funded by the borrower. Interest rates for the first TD Bank loans are subject to normal bank commercial rates and terms and the second TD CDC loans are fixed for the life of the loans based on certain indices.

A provision in the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") created the Paycheck Protection Program ("PPP"), which is administered by the Small Business Administration ("SBA"). The PPP is intended to provide loans to small businesses to pay expenses related to their employees, rent, mortgage interest and utilities. The loans may be forgiven conditioned upon the client providing applicable documentation evidencing their compliance with the terms of the program, including compliance regarding the use of funds. The Bank is an approved SBA lender and began accepting applications for the program on April 3, 2020.

The Paycheck Protection Program and Health Care Enhancement Act ("PPP / HCEA Act"), which was signed into law on April 24, 2020, authorized $310 billion of additional funding under the CARES Act for PPP loans to be issued by financial institutions through the SBA.

All of our SBA loans are originated through our SBA Loan Department. The SBA Loan Department is staffed by loan officers who provide assistance to qualified businesses. The Bank has been designated as an SBA Preferred Lender, which is the highest designation awarded by the SBA. This designation generally facilitates a more efficient marketing and approval process for SBA loans. We have attained SBA Preferred Lender status nationwide. As of December 31, 2020, the Company originated 978 loans with an aggregate loan balance of $66.3 million under the CARES Act and PPP / HCEA Act. The PPP loans are included in the SBA—non-real estate in the Company's loan portfolio.

We originate SBA loans through our branch staff, loan production officers, marketing officers and through SBA brokers.

As of December 31, 2020, our SBA loan portfolio, including SBA PPP loans of $64.9 million, totaled $211.4 million of non-guaranteed loans, of which $136.2 million was secured by real estate and $75.2 million was unsecured or secured by business assets. Our non-performing SBA loans, as of December 31, 2020, were $56,000.

Commercial and Industrial Business Loans. We have significant expertise in the small- to medium-sized commercial and industrial lending market, including trade finance loans. We believe our success is the result of our product and market expertise, and our focus on delivering high-quality, customized and quick turnaround service for our clients. The high-quality nature of our services is due to our focus on maintaining an appropriate balance between prudent, disciplined underwriting, on the one hand, and flexibility in our decision making and responsiveness to our clients, on the other hand. This focus on quality has allowed us to grow our commercial and industrial loan portfolio, while maintaining strong asset quality.

We provide a mix of variable and fixed rate commercial and industrial loans. The loans are typically made to small- and medium-sized manufacturing, wholesale, retail and service businesses for various needs, including working capital needs, business expansions and for international trade financing. We extend commercial business loans on an unsecured and secured basis working capital, accounts receivable and inventory financing, machinery and equipment purchases, and other business purposes. Generally, short-term loans have maturities ranging from six months to one year, and "term loans" have maturities ranging from five to seven years. Loans are generally intended to finance current transactions and typically provide for periodic principal payments, with interest payable monthly. Term loans generally provide for floating interest rates, with monthly payments of both principal and interest. Repayment of secured and unsecured commercial loans substantially depends on the borrower's underlying business, financial condition and cash flows, as well as the sufficiency of the collateral. Compared to real estate, the collateral may be more difficult to monitor, evaluate and sell. Where the borrower is a corporation, partnership or other entity, we typically require personal guarantees from significant equity holders.

Our trade finance unit supplies financial needs to many of our commercial and industrial loan customers. The unit provides, international letters of credit, SWIFT, and export advice. Our trade finance unit has a correspondent relationship with many of the largest banks in South Korea. All of our international letters of credit, SWIFT, and export advice are denominated in U.S. dollars.

The total commercial and industrial loan portfolio totaled $107.3 million at December 31, 2020. Our non-performing commercial and industrial loans, as of December 31, 2020, were $330,000.

In general, commercial and industrial loans may involve increased credit risk and, therefore, typically yield a higher return. The increased risk in commercial and industrial loans derives from the expectation that such loans generally are serviced principally from the operations of the business, and those operations may not be successful. Any interruption or discontinuance of operating cash flows from the business, which may be influenced by events not under the control of the borrower, such as economic events and changes in governmental regulations, could materially affect the ability of the borrower to repay the loan. In addition, the collateral securing commercial and industrial loans generally includes moveable property, such as equipment and inventory, which may decline in value more rapidly than we anticipate, exposing us to increased credit risk. As a result of these additional complexities, variables and risks, commercial and industrial loans require extensive underwriting and servicing.

Single-Family Residential Loans. We originate residential real estate loans collateralized by owner occupied and non-owner occupied properties located in our market areas enabling borrowers to purchase or refinance existing homes. We offer adjustable-rate mortgage loans with the interest rate fixed for the first five years, followed by rate adjustments each year with terms up to 30 years. The relative amount of adjustable-rate mortgage loans that can be originated at any time is largely determined by the demand for such loans in a competitive environment and the effect each has on our interest rate risk.

Loans collateralized by single-family residential real estate generally are originated in amounts of no more than 70% of the appraised value. In connection with such loans, we retain a valid lien on the real estate, obtain a title insurance policy that insures that the property is free from encumbrances and require hazard insurance.

Loan fees on these products, interest rates and other provisions of mortgage loans are determined by us on the basis of our own pricing criteria and competitive market conditions. Interest rates and payments on our adjustable-rate loans, generally, are adjusted annually based on the 1 year-LIBOR rate.

While single-family residential real estate loans are normally originated with up to 30-year terms, such loans typically remain outstanding for substantially shorter periods of time because borrowers often prepay their loans in full either upon sale of the underlying property pledged as security or upon refinancing the original loan. In addition, all of the mortgage loans in our loan portfolio contain due-on-sale clauses providing that the Bank may declare the unpaid amount due and payable upon the sale of the property securing the loan.

The total single-family residential real estate loan portfolio totaled $128.2 million at December 31, 2020. Our non-performing single-family residential real estate loans, as of December 31, 2020, were $599,000.

Consumer Loans. We offer unsecured lines of credit and term loans to high net worth individuals. Consumer loans are underwritten based on the individual borrower's income, current debt level, and past credit history. The terms of consumer loans are up to seven years. Consumer loans entail greater risk than do residential real estate loans because they are unsecured. Consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws may limit the amount which can be recovered on such loans.

The total consumer loan portfolio totaled $1.2 million at December 31, 2020. We had no non-performing consumer loans as of December 31, 2020.

The procedures for underwriting consumer loans include an assessment of the applicant's payment history and the applicant's credit worthiness.

Loan Participations. When loans exceed our lending limit, we as the lead bank will sell a portion of the loan in order to remain within our lending limit. We also sell loan participations to reduce risk and manage credit concentrations in particular businesses and industries. Banks with which we participate are generally located in California. We do not participate in syndicated loans (loans made by a group of lenders who share or participate in a specific loan) with a larger regional financial institution as the lead lender.

Investment Activities

We manage our securities portfolio and cash to maintain adequate liquidity and to ensure the safety and preservation of invested principal, with a secondary focus on yield and returns. Some specific goals of our investment portfolio are as follows:

- provide a ready source of balance sheet liquidity, ensuring adequate availability of funds to meet fluctuations in loan demand, deposit balances and other changes in balance sheet volumes and composition;
- serve as a tool to manage asset-quality diversification of our assets; and
- provide a vehicle to help manage our interest rate risk profile pursuant to our established policies and maximize our overall return.

With the exception of U.S. government agency issues, no one type or segment of security exceeds 40% of the portfolio.

Open Bank's board of directors is responsible for the oversight of investment activities and has delegated the responsibility of monitoring our investment activities to the Asset/Liability Management Board Committee ("ALM"). Our investment policy is reviewed and approved annually by ALM and ratified by our board of directors.

ALM establishes risk limits and policy for conducting investment activities. ALM receives quarterly reports from management's Asset Liability Management Committee ("ALCO"), which approves investment strategies and meets monthly to review investment reports and monitor investment activities. ALCO receives investment related reports and any policy exceptions from the investment officer, who is appointed by ALM and responsible for ensuring compliance and implementation of investment policy guidelines. Day-to-day activities pertaining to the securities portfolio are conducted by the investment officer under the supervision of our Chief Executive Officer and Chief Financial Officer. We actively monitor our investments on an ongoing basis to identify any material changes in the securities. At lease quarterly we also review our securities for potential other-than-temporary impairment.

Limits for investment transactions are based on total transaction amount and require approval if they exceed designated thresholds. Investment transactions up to $5 million require Chief Executive Officer and Chief Financial Officer approval. Investment transactions that exceed $5 million, but up to $10 million, require ALCO approval and any investment transactions that exceed $10 million must be pre-approved by ALM.

Other Products and Services

We offer banking products and services that are competitively priced with a focus on convenience and accessibility. We offer a full suite of online banking solutions including access to account balances, online transfers, online bill payment and electronic delivery of customer statements, mobile banking solutions for iPhone and Android phones, including remote check deposit with mobile bill pay. We offer ATMs and banking by telephone, mail and personal appointment. We offer debit cards with no ATM surcharges or foreign ATM fees for checking customers. We also offer direct deposit, cashier's checks, person to person payments, wire transfer services and automated clearing house ("ACH") services.

We offer a full array of commercial cash management services designed to be competitive with banks of all sizes. Cash management services include balance reporting (including current day and previous day activity), transfers between accounts, wire transfer initiation, ACH origination and stop payments. Cash management deposit products consist of remote deposit capture, positive pay, zero balance accounts and sweep accounts.

We evaluate our services on an ongoing basis, and will add or remove services based upon the perceived needs and financial requirements of our customers, competitive factors and our financial and other capabilities. Future services may also be significantly influenced by improvements and developments in technology and evolving state and federal laws and regulations.

Competition

In our primary markets in Southern California, we view the Korean-American direct banking market competition, including Open Bank, as comprised of eight banks divided into four segments: large publicly-traded banks (two banks), medium-sized banks (two publicly-traded banks and one locally-owned bank), a small locally-owned bank, and banks that are subsidiaries of Korean banks (two banks). Excluding two banks that are subsidiaries of Korean banks, all six banks, including Open Bank, are based in California. As of December 31, 2020, we are the seventh-largest bank, based on total assets, among this group of eight banks.

In addition to Korean-American banks, we also compete with other banks in the region, particularly with Chinese-American banks in our market areas. In certain geographic markets where we currently operate, there is overlap between Chinese-American, Korean-American and other Asian-American banks for loan and deposit business. We aim to grow both organically and potentially through acquisitions in these markets.

The banking and financial services industry is highly competitive. The increasingly competitive environment is a result primarily of changes in regulation, changes in technology and product delivery systems, and the accelerating pace of consolidation among financial services providers. We compete for loan and deposit customers with other commercial banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market funds, credit unions, and other nonbank financial service providers. Many of these competitors, including the majority of the other Korean-American banks located in greater Los Angeles County, have a longer operating history, are much larger in total assets and capitalization, have greater access to capital markets and offer a broader range of financial services than we do.

Large commercial bank competitors have, among other advantages, the ability to finance wide-ranging and effective advertising campaigns and to allocate their investment resources to areas of highest yield and demand. Many of the major banks operating in our market area offer certain services, which we do not offer directly (but some of which we offer through correspondent institutions). By virtue of their greater total capitalization, such banks also have substantially higher lending limits (restricted to a percentage of our total shareholders' equity, depending upon the nature of the loan transaction) than us.

In addition to other banks, our competitors include savings institutions, credit unions, thrift and loan companies and numerous non-banking institutions, such as finance companies, leasing companies, insurance companies, brokerage firms, and investment banking firms located in our primary market area. In recent years, increased competition has also developed from specialized finance and non-finance companies that offer money market and mutual funds, wholesale finance, credit card, and other consumer finance services, including online banking services and personal finance software. We also face growing competition from so-called "online businesses" with few or no physical locations. Strong competition for deposit and loan products affects the rates of those products as well as the terms on which they are offered to customers.

To the extent that we are affected by more general competitive trends in the industry, those trends are focused towards increased consolidation and competition. Strong competitors, other than financial institutions, have entered banking markets with focused products targeted at highly profitable customer segments. Many of these competitors are able to compete across geographic boundaries and provide customers increasing access to meaningful alternatives to banking services in nearly all significant products. Mergers between financial institutions have placed additional pressure on banks within the industry to streamline their operations, reduce expenses, and increase revenues to remain competitive.

Technological innovations have also resulted in increased competition in the financial services industry. Such innovations have, for example, made it possible for non-depository institutions to offer customers automated transfer payment services that previously have been considered traditional banking products. In addition, many customers now expect a choice of several delivery systems and channels, including telephone, mail, home computer, ATMs, self-service branches and/or in store branches. In addition to other banks, the sources of competition for such high-tech products include savings associations, credit unions, brokerage firms, money market and other mutual funds, asset management groups, finance and insurance companies, and mortgage banking firms.

Information Technology Systems

We have made and continue to make significant investments in our information technology systems and staff for our banking and lending operations and cash management activities. We believe this investment will support our continued growth and enable us to enhance our capabilities to offer new products and overall customer experience, and to provide scale for future growth and acquisitions. We utilize a nationally recognized software vendor, and their support allows us to outsource our data processing. Our internal network and e-mail systems are outsourced to a third party and we have a back-up site at our Buena Park location. This back-up site provides for redundancy and disaster recovery capabilities.

The majority of our other systems including our electronic funds transfer, transaction processing and our online banking services are hosted by third-party service providers. The scalability of this infrastructure will support our growth strategy. In addition, the tested capability of these vendors to automatically switch over to standby systems should allow us to recover our systems and provide business continuity quickly in case of a disaster.

Coexistence Agreement between the Bank and Open Bank S.A.

We have not registered the trademark “Open Bank” under the trademark laws of the United States. Open Bank, S.A., a corporation organized and existing under the laws of Spain with its principal office located in Ciudad Grupo Santander, Av. Catabria Boadilla del Monte Madrid Spain (“Open Bank S.A.”) originally registered the trademark “Open Bank” (U.S. Registration No. 3397518) in 2008 with the United States Patent and Trademark Office. Open Bank S.A. provides financial services in Spain and solicits financial services in the United States through the internet. Open Bank S.A. is not licensed to engage in banking services in the United States, California and, to our knowledge, in any other state in the United States. In February 2014, we entered into a Coexistence Agreement with Open Bank S.A. (the “Coexistence Agreement”), under which both parties agreed that we may use the name “Open Bank” in connection with banking and banking related services in the state of California and the cities of New York, Dallas, Atlanta, Chicago, Seattle and Fort Lee, New Jersey (the “Permitted Markets”). We agreed to limit all of the Bank’s marketing, advertising, publicity, soliciting and or media efforts using the “Open Bank” name to primarily the Korean-American community in the Permitted Markets. However, we have the right under the Coexistence Agreement to market through the internet. The Coexistence Agreement states that these limitations are not intended to mean that we should in any way engage in discriminatory tactics or policy or in any way discriminate against non-Korean-American customers or potential customers. Under the Coexistence Agreement, Open Bank S.A. retains the right to use and market its services in relation to its registered trademark in any state or territory in the United States. We further agreed not to challenge Open Bank, S.A.’s trademark registration or any future applications by Open Bank S.A. The Coexistence Agreement has no termination date and is perpetual. If Open Bank S.A. decides to become a licensed bank in California or in any of the other Permitted Markets, depending on its business and marketing plan, there could be confusion created by the use of the name “Open Bank” which could have a material adverse impact on our ability to build its brand in the Permitted Markets. In addition, if Open Bank, S.A. were to assert that we breached the Coexistence Agreement, Open Bank, S.A. could file for an injunction, seek to have the Bank change its name or seek monetary damages, all of which could have a material adverse impact on our financial condition and results of operations. There are no approval rights of either party for any of the actions or no actions that either party may take under the Coexistence Agreement. To our knowledge Open Bank, S.A. has not initiated any business or marketing activities in the United States other than on the worldwide interest through its Spanish language website.

Human Capital Resources

We are an organization with a vision to be known as a Faith-based community bank focused on relationship banking. We have invested in developing a distinct corporate culture guided by a core set of values. These values underlie everything we do, including the way we engage with customers, collaborate with colleagues, do business and manage our resources. Our values are fostered by stewardship, integrity, teamwork, and excellence. We believe our commitment to our communities, culture and quality of our people have been catalysts of our success and will continue to propel our future.

We aim to recruit and retain a workforce that will embrace our culture and values through our hiring process. We also believe that our overall capabilities, culture and opportunities for career growth will allow us to continue to attract talented and entrepreneurial commercial and retail bankers from larger Korean-American financial institutions.

We are dedicated to building and fostering an excellent relationship with our employees by promoting a healthy work environment, comprehensive total rewards package, open communications, and employee involvement.

We provide medical, dental, vision, life & disability, flexible spending accounts, and other supplemental benefits. We offer a 401(k) plan, which allows participants to contribute and invest a portion of each paycheck with a competitive employer match.

We support employees' personal ambitions and professional development by providing on-the-job training and educational assistance, including reimbursement for eligible expenses associated with attending trainings or educational programs. Additionally, in an effort to foster diversity and inclusion, we have a formal Affirmative Action Plan and other training/outreach programs to ensure equal employment opportunity. We developed these components to recruit, retain, and reward top talent and remain an employer of choice by employees.

As of December 31, 2020, we had approximately 173 full-time equivalent employees. Of our workforce, 30% are male and 70% are female. Our executive team is comprised of four females and two males, and three of our executive officers, including President and Chief Executive Officer and our Chief Financial Officer, have been with our Company since 2010.

We consider our relationship with our employees to be good and have not experienced interruptions of operations due to labor disagreements.

Litigation

From time to time, we are party to claims and legal proceedings arising in the ordinary course of business. There are currently no claims or legal proceedings filed against us.

Corporate Information

Our principal executive office is located at 1000 Wilshire Boulevard, Suite 500, Los Angeles, California 90017, telephone number: (213) 892-9999. Our website address is www.myopenbank.com. The Company makes available, free of charge, through the Company's website, the Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports. The Company makes these reports available through its website on the same day they appear on the SEC website.

Unless we state otherwise or the context otherwise requires, references in this prospectus to "we", "our", "us," "ourselves," "the company" and "the Company" refer to OP Bancorp, a California corporation, and its consolidated wholly-owned subsidiary, Open Bank, a California corporation, which is referred to as "Open Bank" or "the Bank".

Supervision and Regulation

General

We are extensively regulated under U.S. federal and state law. As a result, our growth and earnings performance may be affected not only by management decisions and general economic conditions, but also by federal and state statutes and by the regulations and policies of various bank regulatory agencies, including the California Department of Financial Protection and Innovation (the "DFPI"), the Federal Reserve, the FDIC and the Consumer Financial Protection Bureau (the "CFPB"). Furthermore, tax laws administered by the Internal Revenue Service and state taxing authorities, accounting rules developed by the FASB, securities laws administered by the SEC and state securities authorities, anti-money laundering laws enforced by the U.S. Department of the Treasury, or Treasury, and mortgage related rules, including with respect to loan securitization and servicing by the U.S. Department of Housing and Urban Development and agencies such as Fannie Mae and Freddie Mac, also impact our business. The effect of these statutes, regulations, regulatory policies and rules are significant to our financial condition and results of operations. Further, the nature and extent of future legislative, regulatory or other changes affecting financial institutions are impossible to predict with any certainty.

Federal and state banking laws impose a comprehensive system of supervision, regulation and enforcement on the operations of banks, their holding companies and their affiliates. These laws are intended primarily for the protection of the FDIC's Deposit Insurance Fund and bank customers rather than shareholders. Federal and state laws, and the related regulations of the bank regulatory agencies, affect, among other things, the scope of business, the kinds and amounts of investments banks and bank holding companies may make, their reserve requirements, capital levels relative to operations, the nature and amount of collateral for loans, the establishment of branches, the ability to merge, consolidate and acquire, dealings with insiders and affiliates and the payment of dividends.

This supervisory and regulatory framework subjects banks and bank holding companies to regular examination by their respective regulatory agencies, which results in examination reports and ratings that, while not publicly available, can affect the conduct and growth of their businesses. These examinations consider not only compliance with applicable laws and regulations, but also capital levels, asset quality and risk, management ability and performance, earnings, liquidity, and various other factors. The regulatory agencies have broad discretion to impose restrictions and limitations on the operations of a regulated entity where the agencies determine, among other things, that such operations are unsafe or unsound, fail to comply with applicable law or are otherwise inconsistent with laws and regulations or with the supervisory policies of these agencies.

The following is a summary of the material elements of the supervisory and regulatory framework applicable to the Company and its subsidiary, the Bank. It does not describe all of the statutes, regulations and regulatory policies that apply, nor does it restate all of the requirements of those that are described. The descriptions are qualified in their entirety by reference to the particular statutory or regulatory provision.

Regulatory Capital Requirements

The Company and the Bank are subject to the comprehensive capital framework for U.S. banking organizations known as the Basel III Capital Rules adopted by the federal banking agencies. The Basel III Capital Rules are risk-based, meaning that they provide a measure of capital adequacy that reflects the degree of risk associated with a banking organization's operations, both for transactions reported on the balance sheet as assets and for transactions, such as letters of credit and recourse arrangements, that are recorded as off balance sheet items.

The Basel III Capital Rules require the Bank to comply with several minimum capital standards. The Bank must maintain a Tier 1 leverage ratio of at least 4.0%; a common equity Tier 1 ("CET1"), to risk-weighted assets of 4.5%; a Tier 1 capital (that is, CET1 plus Additional Tier 1 capital) to risk-weighted assets of at least 6.0% and a total capital (that is, Tier 1 capital plus Tier 2 capital) to risk-weighted assets of at least 8.0%.

CET1 capital is generally defined as common shareholders' equity and retained earnings. Tier 1 capital is generally defined as CET1 and Additional Tier 1 capital. Additional Tier 1 capital generally includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (CET1 capital plus Additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for loan losses ("ALL") limited to a maximum of 1.25% of risk-weighted assets and, for institutions that have exercised an opt-out election regarding the treatment of Accumulated Other Comprehensive Income ("AOCI"), up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Institutions that have not exercised the AOCI opt-out have AOCI incorporated into CET1 capital (including unrealized gains and losses on available-for-sale-securities). We exercised the opt-out election regarding the treatment of AOCI in part to avoid significant variations in our capital levels resulting changes in the fair value of our available-for-sale investment securities portfolio as interest rates fluctuate. The calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations.

The Basel III Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that (i) mortgage servicing rights, (ii) deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks, and (iii) significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such items, in the aggregate, exceed 15% of CET1. Implementation of the deductions and other adjustments to CET1 began on January 1, 2015, and was phased-in over a four-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter).

In addition to establishing the minimum regulatory capital requirements, the Basel III Capital Rules limit capital distributions and certain discretionary bonus payments to management if an institution does not hold a "capital conservation buffer" consisting of an additional 2.5% of CET1 (for institutions will less than $100 billion in assets), on top of the minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. As of January 1, 2019, the capital conservation buffer requirement is at its fully passed-in level of 2.5%.

During 2020, banking organizations, including the Bank, were required to maintain a CET1 capital ratio of at least 6.375%, a Tier 1 capital ratio of at least 7.875%, and a total capital ratio of at least 9.875% to avoid limitations on capital distributions and certain discretionary incentive compensation payments. The Bank was required to meet a minimum Tier 1 leverage ratio of 4.0%, a minimum CET1 to risk-weighted assets of 4.5% (7% with the capital conservation buffer), a Tier 1 capital to risk-weighted assets of 6.0% (8.5% including the capital conservation buffer) and a minimum total capital to risk-weighted assets of 8.0% (10.5% including the capital conservation buffer).

In determining the amount of risk-weighted assets for purposes of calculating risk-based capital ratios, a bank's assets, including certain off-balance sheet assets (e.g., recourse obligations, direct credit substitutes, residual interests) are multiplied by a risk weight factor assigned by the regulations based on perceived risks inherent in the type of asset. As a result, higher levels of capital are required for asset categories believed to present greater risk. For example, a risk weight of 0% is assigned to cash and U.S. government securities, a risk weight of 50% is generally assigned to prudently underwritten first lien 1-4 family residential mortgages, a risk weight of 100% is assigned to commercial and consumer loans, a risk weight of 150% is assigned to certain past due loans and a risk weight of between 0% to 600% is assigned to permissible equity interests, depending on certain specified factors. The Basel III Capital Rules increased the risk weights for a variety of asset classes, including certain CRE mortgages. Additional aspects of the Basel III Capital Rules' risk weighting requirements that are relevant to the Bank include:

- assigning exposures secured by single-family residential properties to either a 50% risk weight for first-lien mortgages that meet prudent underwriting standards or a 100% risk weight category for all other mortgages;
- providing for a 20% credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable (increased from 0% under the previous risk-based capital rules);
- assigning a 150% risk weight to all exposures that are nonaccrual or 90 days or more past due (increased from 100% under the previous risk-based capital rules), except for those secured by single-family residential properties, which will be assigned a 100% risk weight, consistent with the Basel I risk-based capital rules;
- applying a 150% risk weight instead of a 100% risk weight for certain high volatility CRE acquisition, development and construction loans; and
- applying a 250% risk weight to the portion of mortgage servicing rights and deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks that are not deducted from CET1 capital (increased from 100% under the previous Basel I risk-based capital rules).

As of December 31, 2020, the Bank's capital ratios exceeded the minimum capital adequacy guideline percentage requirements of the federal banking agencies for "well capitalized" institutions under the Basel III Capital Rules on a fully phased-in basis.

An optional simplified measure of capital adequacy may be available to the Bank. On September 17, 2019, the federal bank regulatory agencies have adopted a final rule implementing Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act (the "Economic Growth Act") that provides certain community banking organizations the ability to opt into a new community bank leverage ratio ("CBLR") intended to simplify regulatory capital requirements. Beginning on January 1, 2020, community banking organizations with less than $10 billion in total consolidated assets may elect the new community banking leverage framework if they have a CBLR of greater than 8% in 2020, 8.5% in 2021, and 9% beginning on January 1, 2022, and hold 25 percent or less of assets in off-balance sheet exposures and 5 percent or less of assets in trading assets and liabilities. The CBLR is determined by dividing a banking organization's tangible equity capital by its average total consolidated assets. Upon the opt-in to the community banking leverage framework, a qualifying community banking organization would not be subject to other risk-based and capital leverage requirements (including the Basel III and Basel IV requirements) and would be considered to have met the well capitalized ratio requirements. Opting into the community banking leverage framework could ease the process of determining the Company and the Bank's capital requirements. The Company decided to opt out of the new framework.

Enforcement Powers of Federal and State Banking Agencies

The federal bank regulatory agencies have broad enforcement powers, including the power to terminate deposit insurance, impose substantial fines and other civil and criminal penalties, and appoint a conservator or receiver for financial institutions. Failure to comply with applicable laws and regulations could subject us and our officers and directors to administrative sanctions and potentially substantial civil money penalties. In addition, the appropriate federal bank regulatory agency may appoint the FDIC as conservator or receiver for a depository institution (or the FDIC may appoint itself, under certain circumstances) if any one or more of a number of circumstances exist, including, without limitation, the fact that the depository institution is undercapitalized and has no reasonable prospect of becoming adequately capitalized, fails to become adequately capitalized when required to do so, fails to submit a timely and acceptable capital restoration plan or materially fails to implement an accepted capital restoration plan. The DFPI also has broad enforcement powers over us, including the power to impose orders, remove officers and directors, impose fines and appoint supervisors and conservators.

The Company

General. As a bank holding company, the Company is subject to regulation and supervision by the Federal Reserve under the Bank Holding Company Act of 1956, as amended, or the BHCA. Under the BHCA, the Company is subject to periodic examination by the Federal Reserve. The Company is required to file with the Federal Reserve periodic reports of its operations and such additional information as the Federal Reserve may require. In accordance with Federal Reserve policy, and as now codified by the Dodd-Frank Act, the Company is legally obligated to act as a source of financial strength to the Bank and to commit resources to support the Bank in circumstances where the Company might not be in a financial position to do so.

The Company is also a bank holding company within the meaning of Section 1280 of the California Financial Code. Consequently, the Company is subject to examination by, and may be required to file reports with, the DFPI.

Acquisitions, Activities and Change in Control. The BHCA generally requires the prior approval by the Federal Reserve for any merger involving a bank holding company or any bank holding company's acquisition of more than 5% of a class of voting securities of any additional bank or bank holding company or to acquire all or substantially all, the assets of any additional bank or bank holding company. In reviewing applications seeking approval of merger and acquisition transactions, the Federal Reserve considers, among other things, the competitive effect and public benefits of the transactions, the capital position and managerial resources of the combined organization, the risks to the stability of the U.S. banking or financial system, the applicant's performance record under the Community Reinvestment Act of 1977, as amended ("CRA"), the applicant's compliance with fair housing and other consumer protection laws and the effectiveness of all organizations involved in combating money laundering activities. In addition, failure to implement or maintain adequate compliance programs could cause bank regulators not to approve an acquisition where regulatory approval is required or to prohibit an acquisition even if approval is not required.

Subject to certain conditions (including deposit concentration limits established by the BHCA and the Dodd-Frank Act), the Federal Reserve may allow a bank holding company to acquire banks located in any state of the United States. In approving interstate acquisitions, the Federal Reserve is required to give effect to applicable state law limitations on the aggregate amount of deposits that may be held by the acquiring bank holding company and its insured depository institution affiliates in the state in which the target bank is located (provided that those limits do not discriminate against out-of-state depository institutions or their holding companies) and state laws that require that the target bank have been in existence for a minimum period of time (not to exceed five years) before being acquired by an out-of-state bank holding company. Furthermore, in accordance with the Dodd-Frank Act, bank holding companies must be well-capitalized and well-managed in order to complete interstate mergers or acquisitions. For a discussion of the capital requirements, see "—Regulatory Capital Requirements" above.

Federal law also prohibits any person or company from acquiring “control” of an FDIC-insured depository institution or its holding company without prior notice to the appropriate federal bank regulator. On January 30, 2020, the Federal Reserve finalized regulations revising the rules for determining control of a banking organization under the BHCA and adopted a tiered framework pf presumptions where the level of voting share ownership is assessed in combination with relationship-based factors to determine whether “control” exists. “Control” is conclusively presumed to exist upon the acquisition of 25% or more of the outstanding voting securities of a bank or bank holding company, but may arise under certain circumstances between 5% and 24.99% ownership.

Under the California Financial Code, any proposed acquisition of “control” of the Bank by any person (including a company) must be approved by the Commissioner of the DFPI. The California Financial Code defines “control” as the power, directly or indirectly, to direct the Bank’s management or policies or to vote 25% or more of any class of the Bank’s outstanding voting securities. Additionally, a rebuttable presumption of control arises when any person (including a company) seeks to acquire, directly or indirectly, 10% or more of any class of the Bank’s outstanding voting securities.

Permitted Activities. The BHCA generally prohibits the Company from controlling or engaging in any business other than that of banking, managing and controlling banks or furnishing services to banks and their subsidiaries. This general prohibition is subject to a number of exceptions. The principal exception allows bank holding companies to engage in, and to own shares of companies engaged in, certain businesses found by the Federal Reserve prior to November 11, 1999 to be “so closely related to banking as to be a proper incident thereto.” This authority would permit the Company to engage in a variety of banking-related businesses, including the ownership and operation of a savings association, or any entity engaged in consumer finance, equipment leasing, the operation of a computer service bureau (including software development) and mortgage banking and brokerage. The BHCA generally does not place territorial restrictions on the domestic activities of nonbank subsidiaries of bank holding companies. The Federal Reserve has the power to order any bank holding company or its subsidiaries to terminate any activity or to terminate its ownership or control of any subsidiary when the Federal Reserve has reasonable grounds to believe that continuing such activity, ownership or control constitutes a serious risk to the financial soundness, safety or stability of any bank subsidiary of the bank holding company.

Additionally, bank holding companies that meet certain eligibility requirements prescribed by the BHCA and elect to operate as financial holding companies may engage in, or own shares in companies engaged in, a wider range of nonbanking activities. These nonbanking activities include securities and insurance underwriting and sales, merchant banking and any other activity that the Federal Reserve, in consultation with the Secretary of the Treasury, determines, by regulation or order, is either financial in nature or incidental to any such financial activity or that the Federal Reserve determines, by order, to be complementary to any such financial activity and does not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally. The Company has not elected to be a financial holding company, and we have not engaged in any nonbanking activities determined by the Federal Reserve to be financial in nature or incidental or complementary to activities that are financial in nature.

If the Company elects to become a financial holding company to maintain the Company’s status as a financial holding company, the Company and the Bank must be well-capitalized, well-managed, and have a satisfactory CRA rating. If the Company were to become a financial holding company and the Federal Reserve subsequently determined that the Company, as a financial holding company, is not well-capitalized or well-managed, the Company would have a period of time during which to achieve compliance, but during the period of noncompliance, the Federal Reserve may place any limitations on the Company it believes to be appropriate. Furthermore, if the Company became a financial holding company and the Federal Reserve subsequently determined that the Bank, as a financial holding company subsidiary, has not received a satisfactory CRA rating, the Company would not be able to commence any new financial activities or acquire a company that engages in such activities.

Capital Requirements. Bank holding companies are required to maintain capital in accordance with Federal Reserve capital adequacy requirements, as affected by the Dodd-Frank Act and Basel III. For a discussion of capital requirements, see “—Regulatory Capital Requirements” above.

Source of Strength Doctrine. Federal Reserve policy historically required bank holding companies to act as a source of financial and managerial strength to their subsidiary banks. The Dodd-Frank Act codified this policy as a statutory requirement. Under this requirement, the Company is expected to commit resources to support the Bank, including at times when the Company may not be in a financial position to provide it. The Company must stand ready to use its available resources to provide adequate capital to the subsidiary bank during periods of financial stress or adversity. The Company must also maintain the financial flexibility and capital raising capacity to obtain additional resources to assist the Bank. The Company's failure to meet its source of strength obligations may constitute an unsafe and unsound practice or a violation of the Federal Reserve's regulations or both. The source of strength doctrine most directly affects bank holding companies where a bank holding company's subsidiary bank fails to maintain adequate capital levels. In such a situation, the subsidiary bank will be required by the bank's federal regulator to take "prompt corrective action." Any capital loans by a bank holding company to a subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such bank. The BHCA provides that in the event of the bank holding company's bankruptcy any commitment by a bank holding company to a federal bank regulatory agency to maintain the capital of its subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

Safe and Sound Banking Practices. Bank holding companies and their non-banking subsidiaries are prohibited from engaging in activities that represent unsafe and unsound banking practices or that constitute a violation of law or regulations. Under certain conditions the Federal Reserve may conclude that certain actions of a bank holding company, such as a payment of a cash dividend, would constitute an unsafe and unsound banking practice. The Federal Reserve also has the authority to regulate the debt of bank holding companies, including the authority to impose interest rate ceilings and reserve requirements on such debt. Under certain circumstances the Federal Reserve may require a bank holding company to file written notice and obtain its approval prior to purchasing or redeeming its equity securities, unless certain conditions are met.

Tie in Arrangements. Federal law prohibits a bank holding company, and any subsidiary banks, from engaging in certain tie in arrangements in connection with the extension of credit. For example, the Bank may not extend credit, lease or sell property, or furnish any services, or fix or vary the consideration for any of the foregoing on the condition that (i) the customer must obtain or provide some additional credit, property or services from or to the Bank other than a loan, discount, deposit or trust services, (ii) the customer must obtain or provide some additional credit, property or service from or to the Company or the Bank, or (iii) the customer must not obtain some other credit, property or services from competitors, except reasonable requirements to assure soundness of credit extended.

Dividend Payments, Stock Redemptions and Repurchases. The Company's ability to pay dividends to its shareholders is affected by both general corporate law considerations and the policies of the Federal Reserve applicable to bank holding companies. It is the Federal Reserve's policy that bank holding companies should generally pay dividends on common stock only out of income available over the past year, and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. It is also the Federal Reserve's policy that bank holding companies should not maintain dividend levels that undermine their ability to be a source of strength to their banking subsidiaries. Additionally, in consideration of the current financial and economic environment, the Federal Reserve has indicated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong. The Federal Reserve possesses enforcement powers over bank holding companies and their nonbank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies. In addition, under the Basel Capital III Rules, institutions that seek to pay dividends must maintain a capital conservation buffer of 2.5% in CET1. See "—Regulatory Capital Requirements" above.

Bank holding companies must consult with the Federal Reserve before redeeming any equity or other capital instrument included in Tier 1 or Tier 2 capital prior to its stated maturity, if applicable, if such redemption could have a material effect on the level or composition of the organization's capital base. Bank holding companies experiencing financial weaknesses, or that are at significant risk of developing financial weaknesses, must consult with the Federal Reserve before redeeming or repurchasing common stock or other regulatory capital instruments.

As a California corporation, the Company is subject to the limitations of California law, which allows a corporation to distribute cash or property to shareholders, including a dividend or repurchase or redemption of shares, if the corporation meets either a retained earnings test or a "balance sheet" test. Under the retained earnings test, the Company may make a distribution from retained earnings to the extent that its retained earnings exceed the sum of (a) the amount of the distribution plus (b) the amount, if any, of dividends in arrears on shares with preferential dividend rights. The Company may also make a distribution if, immediately after the distribution, the value of its assets equals or exceeds the sum of (a) its total liabilities plus (b) the liquidation preference of any shares which have a preference upon dissolution over the rights of shareholders receiving the distribution. Indebtedness is not considered a liability if the terms of such indebtedness provide that payment of principal and interest thereon are to be made only if, and to the extent that, a distribution to shareholders could be made under the balance sheet test. In addition, the Company may not make distributions if it is, or as a result of the distribution would be, likely to be unable to meet its liabilities (except those whose payment is otherwise adequately provided for) as they mature. A California corporation may specify in its articles of incorporation that distributions under the retained earnings test or balance sheet test can be made without regard to the preferential rights amount. The Company's articles of incorporation do not address distributions under either the retained earnings test or the balance sheet test.

The Bank

General. The Bank is a California-chartered bank. The Bank's deposit accounts are insured by the FDIC's Deposit Insurance Fund ("DIF") to the maximum extent provided under federal law and FDIC regulations. The Bank is not a member of the Federal Reserve System. As a California-chartered non-member bank, the Bank is subject to the examination, supervision and regulation by the DFPI, the chartering authority for California banks, and by the FDIC.

Depositor Preference. In the event of the "liquidation or other resolution" of an insured depository institution, the claims of depositors of the institution, including the claims of the FDIC as subrogee of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors including the parent bank holding company with respect to any extensions of credit they have made to such insured depository institution.

Brokered Deposit Restrictions. Well capitalized institutions are not subject to limitations on brokered deposits, while adequately capitalized institutions are able to accept, renew or roll over brokered deposits only with a waiver from the FDIC and subject to certain restrictions on the yield paid on such deposits. Undercapitalized institutions are generally not permitted to accept, renew, or roll over brokered deposits. As of December 31, 2020, the Bank was eligible to accept brokered deposits without a waiver from FDIC.

Loans to One Borrower. With certain limited exceptions, the maximum amount that a California bank may lend to any borrower at any one time (including the obligations to the bank of certain related entities of the borrower) may not exceed 25% (and unsecured loans may not exceed 15%) of the bank's shareholders' equity, allowance for loan losses, and any capital notes and debentures of the bank.

Deposit Insurance. As an FDIC-insured institution, the Bank is required to pay deposit insurance premium assessments to the FDIC. The FDIC has adopted a risk-based assessment system whereby FDIC-insured depository institutions pay insurance premiums at rates based on their risk classification. An institution's risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to the regulators. For deposit insurance assessment purposes, an insured depository institution is placed in one of four risk categories each quarter. An institution's assessment is determined by multiplying its assessment rate by its assessment base. The total base assessment rates range from 1.5 basis points to 40 basis points. While in the past an insured depository institution's assessment base was determined by its deposit base, amendments to the Federal Deposit Insurance Act revised the assessment base so that it is calculated using average consolidated total assets minus average tangible equity.

Additionally, the Dodd-Frank Act increased the minimum designated reserve ratio of the DIF to 1.35% of the estimated amount of total insured deposits as of September 30, 2020, and eliminated the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds. At least semi-annually, the FDIC updates its loss and income projections for the DIF and, if needed, may increase or decrease the assessment rates, following notice and comment on proposed rulemaking. During the year ended December 31, 2020, the Bank paid $256,000 in aggregate FDIC deposit insurance premiums.

Supervisory Assessments. California-chartered banks are required to pay supervisory assessments to the DFPI to fund its operations. The amount of the assessment paid by a California bank to the DFPI is calculated on the basis of the institution's total assets, including consolidated subsidiaries, as reported to the DFPI. During the year ended December 31, 2020, the Bank paid supervisory assessments to the DFPI totaling $112,000.

Capital Requirements. Banks are generally required to maintain capital levels in excess of other businesses. For a discussion of capital requirements, see "—Regulatory Capital Requirements" above.

Dividend Payments. The primary source of funds for the Company is dividends from the Bank. Under the California Financial Code, the Bank is permitted to pay a dividend in the following circumstances: (i) without the consent of either the DFPI or the Bank's shareholders, in an amount not exceeding the lesser of (a) the retained earnings of the Bank; or (b) the net income of the Bank for its last three fiscal years, less the amount of any distributions made during the prior period; (ii) with the prior approval of the DFPI, in an amount not exceeding the greatest of: (a) the retained earnings of the Bank; (b) the net income of the Bank for its last fiscal year; or (c) the net income for the Bank for its current fiscal year; and (iii) with the prior approval of the DFPI and the Bank's shareholders (i.e., the Company) in connection with a reduction of its contributed capital.

The payment of dividends by any financial institution is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a financial institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. In addition, in order to pay a dividend, the Basel III Capitals Rules' capital conservation buffer generally requires that an institution maintains 2.5% in CET1. See "—Regulatory Capital Requirements" above. As described above, the Bank exceeded its minimum capital requirements under applicable regulatory guidelines as of December 31, 2020.

Transactions with Affiliates. The Bank is subject to certain restrictions imposed by federal law on "covered transactions" between the Bank and its "affiliates." The Company is an affiliate of the Bank for purposes of these restrictions, and covered transactions subject to the restrictions include extensions of credit to the Company, investments in the stock or other securities of the Company and the acceptance of the stock or other securities of the Company as collateral for loans made by the Bank. The Dodd-Frank Act enhances the requirements for certain transactions with affiliates, including an expansion of the definition of "covered transactions" and an increase in the amount of time for which collateral requirements regarding covered transactions must be maintained.

Loans to Directors, Executive Officers and Principal Shareholders. The authority of the Bank to extend credit to its directors, executive officers and principal shareholders, including their immediate family members and corporations and other entities that they control, is subject to substantial restrictions and requirements under the Federal Reserve's Regulation O, as well as the Sarbanes-Oxley Act. These statutes and regulations impose limits on the amount of loans the Bank may make to directors and other insiders and require that: (i) the loans must be made on substantially the same terms, including interest rates and collateral, as prevailing at the time for comparable transactions with persons not affiliated with the Company or the Bank; (ii) the Bank must follow credit underwriting procedures at least as stringent as those applicable to comparable transactions with persons who are not affiliated with the Company or the Bank; and (iii) the loans must not involve a greater than normal risk of non-payment or include other features not favorable to the Bank. Furthermore, the Bank must periodically report all loans made to directors and other insiders to the bank regulators.

Safety and Soundness Standards/Risk Management. The federal banking agencies have adopted guidelines establishing operational and managerial standards to promote the safety and soundness of federally insured depository institutions. The guidelines set forth standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings. In general, the safety and soundness guidelines prescribe the goals to be achieved in each area, and each institution is responsible for establishing its own procedures to achieve those goals. If a financial institution fails to comply with any of the standards set forth in the guidelines, its primary federal regulator may require the institution to submit a plan for achieving and maintaining compliance. If a financial institution fails to submit an acceptable compliance plan, or fails in any material respect to implement a compliance plan that has been accepted by its primary federal regulator, the regulator is required to issue an order directing the institution to cure the deficiency. Until the deficiency cited in the regulator's order is cured, the regulator may restrict the financial institution's rate of growth, require the financial institution to increase its capital, restrict the rates the institution pays on deposits or require the institution to take any action the regulator deems appropriate under the circumstances. Noncompliance with the standards established by the safety and soundness guidelines may also constitute grounds for other enforcement action by the federal bank regulatory agencies, including cease and desist orders and civil money penalty assessments.

During the past decade, the bank regulatory agencies have increasingly emphasized the importance of sound risk management processes and strong internal controls when evaluating the activities of the financial institutions they supervise. Properly managing risks has been identified as critical to the conduct of safe and sound banking activities and has become even more important as new technologies, product innovation, and the size and speed of financial transactions have changed the nature of banking markets. The agencies have identified a spectrum of risks facing a banking institution including, but not limited to, credit, market, liquidity, operational, legal, and reputational risk. In particular, recent regulatory pronouncements have focused on operational risk, which arises from the potential that inadequate information systems, operational problems, breaches in internal controls, fraud, or unforeseen catastrophes will result in unexpected losses. New products and services, third-party risk management and cybersecurity are critical sources of operational risk that financial institutions are expected to address in the current environment. The Bank is expected to have active board and senior management oversight; adequate policies, procedures, and limits; adequate risk measurement, monitoring, and management information systems; and comprehensive internal controls.

Branching Authority. California law permits California banks, such as the Bank, to establish an additional banking office with notice to the DFPI. Deposit-taking banking offices must also be approved by the FDIC, which considers a number of factors, including financial history, capital adequacy, earnings prospects, character of management, needs of the community and consistency with corporate power. The Dodd-Frank Act permits insured state banks to engage in interstate branching if the laws of the state where the new banking office is to be established would permit the establishment of the banking office if it were chartered by a bank in such state. Finally, we may also establish banking offices in other states by merging with banks or by purchasing banking offices of other banks in other states, subject to certain restrictions.

Community Reinvestment Act. The CRA is intended to encourage insured depository institutions, while operating safely and soundly, to help meet the credit needs of their communities. The CRA specifically directs the federal bank regulatory agencies, in examining insured depository institutions, to assess their record of helping to meet the credit needs of their entire community, including low and moderate income neighborhoods, consistent with safe and sound banking practices. The CRA further requires the agencies to take a financial institution's record of meeting its community credit needs into account when evaluating applications for, among other things, domestic branches, consummating mergers or acquisitions or holding company formations.

The federal banking agencies have adopted regulations which measure a bank's compliance with its CRA obligations on a performance based evaluation system. This system bases CRA ratings on an institution's actual lending service and investment performance rather than the extent to which the institution conducts needs assessments, documents community outreach or complies with other procedural requirements. The ratings range from "outstanding" to a low of "substantial noncompliance." The Bank had a CRA rating of "satisfactory" as of its most recent regulatory examination.

The federal banking agencies have expressed support for modernizing the CRA regulatory framework. In December 2019, the FDIC and the OCC issued a joint proposed rule that would amend the CRA regulations. The proposed rule sought to clarify what qualifies for credit under the CRA, update the definition of a small business loan and create an additional definition of "assessment area" tied to where deposits are located, partly to address changes that have occurred due to the rise in digital banking, ensuring that banks continue to serve low- and moderate-income customers in their communities. While the OCC has finalized its amended regulations in May 2020, the FDIC has not yet done so. It is unclear at this time whether and to what extent any changes will be made to the applicable CRA requirements.

Anti-Money Laundering and the Office of Foreign Assets Control Regulation. We are subject to federal laws aiming to counter money laundering and terrorist financing, as well as transactions with persons, companies and foreign governments sanctioned by the United States. These laws include, among others, the USA PATRIOT Act, the Bank Secrecy Act, and the Money Laundering Act. These laws prohibit financial institutions from entering into specified financial transactions and account relationships and require them to use enhanced due diligence procedures in their dealings with certain types of high risk customers and implement a written customer identification program. Financial institutions must take certain steps to assist government agencies in detecting and preventing money laundering and report certain types of suspicious transactions. Regulatory authorities routinely examine financial institutions for compliance with these obligations, and failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required. Regulatory authorities have imposed cease and desist orders and civil money penalties against institutions found to be violating these obligations.

Treasury's Office of Foreign Assets Control ("OFAC") administers and enforces economic and trade sanctions against targeted foreign countries and regimes under authority of various laws, including designated foreign countries, nationals and others. OFAC publishes lists of specially designated targets and countries. Financial institutions are responsible for, among other things, blocking accounts of and transactions with such targets and countries, prohibiting unlicensed trade and financial transactions with them and reporting blocked transactions after their occurrence.

Failure of a financial institution to maintain and implement adequate anti-money laundering and OFAC programs, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution. The Bank has in place policies and procedures that are believed to comply with these laws.

Concentrations in Commercial Real Estate. Concentration risk exists when financial institutions deploy too many assets to any one industry or segment. Concentration stemming from commercial real estate is one area of regulatory concern. The CRE Concentration Guidance provides supervisory criteria, including the following numerical indicators, to assist bank examiners in identifying banks with potentially significant commercial real estate loan concentrations that may warrant greater supervisory scrutiny: (i) commercial real estate loans exceeding 300% of capital and increasing 50% or more in the preceding three years; or (ii) construction and land development loans exceeding 100% of capital. The CRE Concentration Guidance does not limit banks' levels of commercial real estate lending activities, but rather guides institutions in developing risk management practices and levels of capital that are commensurate with the level and nature of their commercial real estate concentrations. Based on the Bank's loan portfolio, commercial real estate loans were 310% of risk based capital and increased 58% in preceding three years as of December 31, 2020. The Bank continues to further enhance the monitoring and review process of the real estate loan portfolio.

Consumer Financial Services. We are subject to a number of federal and state consumer protection laws that extensively govern our relationship with our customers. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Truth in Savings Act, the Electronic Fund Transfer Act, the Expedited Funds Availability Act, the Home Mortgage Disclosure Act, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Fair Debt Collection Practices Act, the Servicemembers Civil Relief Act, the Military Lending Act, and these laws' respective state law counterparts, as well as state usury laws and laws regarding unfair and deceptive acts and practices. These and other federal laws, among other things, require disclosures of the cost of credit and terms of deposit accounts, provide substantive consumer rights, prohibit discrimination in credit transactions, regulate the use of credit report information, provide financial privacy protections, prohibit unfair, deceptive and abusive acts and practices ("UDAAP"), restrict our ability to raise interest rates and subject us to substantial regulatory oversight. Violations of applicable consumer protection laws can result in significant potential liability from litigation brought by customers, including actual damages, restitution and attorneys' fees. Federal bank regulators, state and local attorneys general and state and local consumer protection agencies may also seek to enforce consumer protection requirements and obtain these and other remedies, including regulatory sanctions, customer rescission rights, action by the state and local attorneys general in each jurisdiction in which we operate and civil money penalties. Failure to comply with consumer protection requirements may also result in our failure to obtain any required bank regulatory approval for merger or acquisition transactions we may wish to pursue or our prohibition from engaging in such transactions even if approval is not required.

Many states and local jurisdictions have consumer protection laws analogous, and in addition, to those listed above. These federal, state and local laws regulate the manner in which financial institutions deal with customers when taking deposits, making loans or conducting other types of transactions. Failure to comply with these laws and regulations could give rise to regulatory sanctions, customer rescission rights, action by state and local attorneys general and civil or criminal liability.

The structure of federal consumer protection regulation applicable to all providers of consumer financial products and services changed significantly on July 21, 2011, when the CFPB commenced operations to supervise and enforce consumer protection laws.

The consumer protection provisions of the Dodd-Frank Act and the examination, supervision and enforcement of those laws and implementing regulations by the CFPB have created a more intense and complex environment for consumer finance regulation. The CFPB has significant authority to implement and enforce federal consumer protection laws and new requirements for financial services products provided for in the Dodd-Frank Act, as well as the authority to identify and prohibit UDAAP. The review of products and practices to prevent UDAAP is a continuing focus of the CFPB, and of banking regulators more broadly. The ultimate impact of this heightened scrutiny is uncertain but could result in changes to pricing, practices, products and procedures. It could also result in increased costs related to regulatory oversight, supervision and examination, additional remediation efforts and possible penalties. In addition, the Dodd-Frank Act provides the CFPB with broad supervisory, examination and enforcement authority over various consumer financial products and services, including the ability to require reimbursements and other payments to customers for alleged legal violations and to impose significant penalties, as well as injunctive relief that prohibits lenders from engaging in allegedly unlawful practices. The CFPB also has the authority to obtain cease and desist orders providing for affirmative relief or monetary penalties. The Dodd-Frank Act does not prevent states from adopting stricter consumer protection standards. State regulation of financial products and potential enforcement actions could also adversely affect our business, financial condition and results of operations.

The CFPB has examination and enforcement authority over providers with more than $10 billion in assets. Banks and savings institutions with $10 billion or less in assets, like the Bank, will continue to be examined by their applicable bank regulators.

Under the newly adopted California legislation that went into effect on January 1, 2021, the DFPI was given broad jurisdiction and sweeping new authorities that closely resemble those of the CFPB. The DFPI stated that it intends to exercise its powers to protect consumers from unlawful, unfair, deceptive, and abusive practices in connection with consumer financial products or services. The DFPI also as a matter of state law can now enforce the Dodd-Frank Act's UDAAP provisions against any person offering or providing consumer financial products in the state of California. Going forward, financial institutions in California are likely to be faced with a powerful state financial services regulatory regime with expansive enforcement authority, and it is unclear how the DFPI and its enforcement activities will affect the Bank in the future.

Mortgage and Mortgage-Related Products. Because abuses in connection with home mortgages were a significant factor contributing to the financial crisis, many new rules issued by the CFPB and required by the Dodd-Frank Act address mortgage and mortgage-related products, their underwriting, origination, servicing and sales. The Dodd-Frank Act significantly expanded underwriting requirements applicable to loans secured by 1-4 family residential real property and augmented federal law combating predatory lending practices. In addition to numerous disclosure requirements, the Dodd-Frank Act imposed new standards for mortgage loan originations on all lenders, including banks and savings associations, in an effort to strongly encourage lenders to verify a borrower's ability to repay, while also establishing a presumption of compliance for certain "qualified mortgages." The Dodd-Frank Act generally required lenders or securitizers to retain an economic interest in the credit risk relating to loans that the lender sells, and other asset-backed securities that the securitizer issues, if the loans do not comply with the ability-to-repay standards described below. The risk retention requirement generally is 5%, but could be increased or decreased by regulation. The Bank does not currently expect the CFPB's rules to have a significant impact on its operations, except for higher compliance costs.

Ability-to-Repay Requirement and Qualified Mortgage Rule. The CFPB administers regulations implementing the Dodd-Frank Act's ability-to-repay/qualified mortgage requirements ("ATR/QM rule"), which require lenders to make a reasonable good faith determination of a consumer's ability to repay a mortgage loan based on verified borrower financial information and provide certain protections from liability for residential mortgage loans that meet the ATR/QM Rule's requirements for "qualified mortgages." On December 10, 2020, the CFPB issued two final rules amending the ATR/QM Rule that are scheduled to have a mandatory compliance date of July 1, 2021. The principal purpose of these final rules is to avoid anticipated problems concerning mortgage credit availability following the scheduled expiration on July 1, 2021 of the temporary category of qualified mortgages (known as government sponsored enterprises qualified mortgages or "GSE QM") that are eligible for purchase by Fannie Mae or Freddie Mac while they operate under federal conservatorship or receivership.

The first final rule modifies the requirements for a loan to qualify as a qualified mortgage and eliminates the GSE QM category. It will replace the existing 43% debt-to-income ratio limit with price-based thresholds and remove the Appendix Q national underwriting standards as well as any requirement to use them. The price-based threshold provides that the loan's annual percentage rate not exceed the average prime offer rate for a comparable transaction by 2.25 percentage points or more as of the date the interest rate is set (with higher thresholds provided for smaller loans and subordinate-lien loans). Under this final rule, instead of the debt-to-income ratio limit, the creditor must instead meet "consider and verify" loan underwriting requirements, by considering the consumer's current or reasonably expected income or assets other than the value of the subject dwelling, debt obligations, alimony, child support, and monthly debt-to-income ratio or residual income in order to assess the consumer's ability to repay the mortgage loan, and verify this information using third-party records that provide reasonably reliable evidence to support accuracy. The second final rule creates a new category of qualified mortgages – "seasoned qualified mortgage." It allows non-qualified mortgages and higher-priced qualified mortgages to acquire safe harbor protection from liability under the ATR/QM Rule following their origination based on specified performance and portfolio requirements.

Mortgage Loan Originator Compensation. As a part of the overhaul of mortgage origination practices, mortgage loan originators' compensation has been limited such that they may no longer receive compensation based on a mortgage transaction's terms or conditions other than the amount of credit extended under the mortgage loan. Further, the total points and fees that a bank and/or a broker may charge on conforming and jumbo loans has been limited to 3.0% of the total loan amount. Mortgage loan originators may receive compensation from a consumer or from a lender, but not both. These rules contain requirements designed to prohibit mortgage loan originators from "steering" consumers to loans that provide mortgage loan originators with greater compensation. In addition, the rules contain other requirements concerning recordkeeping.

Home Mortgage Servicing. Pursuant to the Dodd-Frank Act, the CFPB has implemented certain provisions of the Dodd-Frank Act relating to mortgage servicing through rulemaking. The servicing rules require servicers to meet certain benchmarks for loan servicing and customer service in general. Servicers must provide periodic billing statements and certain required notices and acknowledgments, promptly credit borrowers' accounts for payments received and promptly investigate complaints by borrowers. Servicers also are required to take additional steps before purchasing insurance to protect the lender's interest in the property. The servicing rules call for additional notice, review and timing requirements with respect to delinquent borrowers, including early intervention, ongoing access to servicer personnel and specific loss mitigation and foreclosure procedures. The rules provide for an exemption from most of these requirements for "small servicers", which are defined as loan servicers that service 5,000 or fewer mortgage loans and service only mortgage loans that they or an affiliate originated or own.

Pandemic Protection. To alleviate economic hardships brought on by the COVID-19 pandemic, the CARES Act included certain components that impact consumer rights and obligations, such as a foreclosure moratorium, right to forbearance, and consumer credit protection. Specifically, the CARES Act prohibits foreclosures on all federally-backed mortgage loans for a period of time, provides forbearance of up to 180 days (which may be extended by up to another 180 days) for borrowers who suffer a financial hardship due to COVID-19, and requires that any accounts in forbearance be reported to the credit bureau reporting agencies as current or as the status reported prior to receiving forbearance. State governments have instituted additional protections for consumers and businesses affected by the pandemic, including by halting residential and commercial evictions and instituting a moratorium on residential and commercial foreclosures and related evictions.

Incentive Compensation Guidance. The federal bank regulatory agencies have issued comprehensive guidance intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of those organizations by encouraging excessive risk-taking. The incentive compensation guidance sets expectations for banking organizations concerning their incentive compensation arrangements and related risk-management, control and governance processes. The incentive compensation guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon three primary principles: (i) balanced risk-taking incentives; (ii) compatibility with effective controls and risk management; and (iii) strong corporate governance. Any deficiencies in compensation practices that are identified may be incorporated into the organization's supervisory ratings, which can affect its ability to make acquisitions or take other actions. In addition, under the incentive compensation guidance, a banking organization's federal supervisor may initiate enforcement action if the organization's incentive compensation arrangements pose a risk to the safety and soundness of the organization. Further, the Basel III Capital Rules limit discretionary bonus payments to bank executives if the institution's regulatory capital ratios fail to exceed certain thresholds. The scope and content of the U.S. banking regulators' policies on executive compensation are continuing to develop and are likely to continue evolving in the near future.

Financial Privacy. The federal bank regulatory agencies have adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to non-affiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a non-affiliated third party. These regulations affect how consumer information is transmitted through financial services companies and conveyed to outside vendors. In addition, consumers may also prevent disclosure of certain information among affiliated companies that is assembled or used to determine eligibility for a product or service, such as that shown on consumer credit reports and asset and income information from applications. Consumers also have the option to direct banks and other financial institutions not to share information about transactions and experiences with affiliated companies for the purpose of marketing products or services.

The CFPB has recently announced its intention to embark on rulemaking about how much control consumers have over their financial data. California is also enacting legislation relating to data privacy and data protection, such as the California Consumer Privacy Act (the “CCPA”), which went into effect on January 1, 2020. The CCPA granted California consumers robust data privacy rights and control over their personal information, including the right to know, the right to delete, and the right to opt-out of the sale of their personal information. The CCPA was recently expanded by the California Privacy Rights Act of 2020 (the “CPRA”), which provides further privacy rights to California residents and creates a new agency tasked with implementing regulations and conducting investigations and enforcement actions. The CPRA will become effective on January 1, 2023.

Cybersecurity. The federal bank regulatory agencies have issued multiple statements regarding cybersecurity. This guidance requires financial institutions to design multiple layers of security controls to establish lines of defense and ensure that their risk management processes address the risk posed by compromised customer credentials and include security measures to authenticate customers accessing internet-based services of the financial institution. The management of a financial institution is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of operations in the event of a cyber-attack. A financial institution is also expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or its critical service providers fall victim to a cyber-attack. If we fail to observe the regulatory guidance, we could be subject to various regulatory sanctions, including financial penalties.

State regulators have also been increasingly active in implementing privacy and cybersecurity standards and regulations. Recently, several states, including California, have adopted laws and/or regulations requiring certain financial institutions to implement cybersecurity programs and providing detailed requirements with respect to these programs, including data encryption requirements. Many such states, including California, have also recently implemented or modified their data breach notification and data privacy requirements. We expect this trend of state-level activity in those areas to continue, and we continue to monitor relevant legislative and regulatory developments in California where many of our customers are located.

In the ordinary course of business, we rely on electronic communications and information systems to conduct our operations and to store sensitive data. We employ a layered, defensive approach that leverages people, processes and technology to manage and maintain cybersecurity controls. We employ a variety of preventative and detective tools to monitor, block, and provide alerts regarding suspicious activity, as well as to report on any suspected advanced persistent threats. Notwithstanding the strength of our defensive measures, the threat from cyber-attacks is severe, attacks are sophisticated and increasing in volume, and attackers respond rapidly to changes in defensive measures. While to date we have not detected a significant compromise, data loss or any material financial losses related to cybersecurity attacks, our systems and those of our customers and third-party service providers are under constant threat and it is possible that we could experience a significant event in the future. Risks and exposures related to cybersecurity attacks are expected to remain high for the foreseeable future due to the rapidly evolving nature and sophistication of these threats, as well as due to the expanding use of Internet banking, mobile banking and other technology-based products and services by us and our customers. For further discussion of risks related to cybersecurity, see “—Other Risks Related to Our Business” below.

Impact of Monetary Policy. The monetary policy of the Federal Reserve has a significant effect on the operating results of financial or bank holding companies and their subsidiaries. Among the tools available to the Federal Reserve to affect the money supply are open market transactions in U.S. government securities, changes in the discount rate on member bank borrowings and changes in reserve requirements against member bank deposits. These means are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits, and their use may affect interest rates charged on loans or paid on deposits.

Further Legislative and Regulatory Initiatives. Federal and state legislatures as well as regulatory agencies may introduce or enact new laws or rules, or amend existing laws and rules, which may affect the regulation of financial institutions and their holding companies. In addition, some of the financial laws and regulations aiming to ease regulatory and compliance burden on financial institutions that were adopted during the last presidential administration could be repealed or eliminated going forward. The impact of any future legislative or regulatory changes cannot be predicted, but they could affect the Company and the Bank’s business and operations.

Item 1A. Risk Factors.

You should carefully consider the risks and uncertainties described below, together with the information included elsewhere in this report and other documents we file with the SEC. The following risks and uncertainties described below are those that we have identified as material. Events or circumstances arising from one or more of these risks could adversely affect our business, financial condition, operating results and prospects and the value and price of our common stock could decline. The risks identified below are not intended to be a comprehensive list of all risks we face. Additional risks and uncertainties not presently known to us, or that we may currently view as not material, may also adversely impact our business, financial condition, and results of operations.

Summary of Risk Factors

The following is a summary of the most significant risks and uncertainties that we believe could adversely affect our business, financial condition and results of operations. The summary should be read in conjunction with the more detailed risk factors set forth in this “Risk Factors” section and the other information contained in this report.

Risks Related to Our Business

-Decline in general business and economic conditions

-Impact of COVID-19

-Participation in SBA Paycheck Protection Program

-Changes in U.S. trade policy, impositions of tariffs and retaliatory tariffs

-Adverse economic conditions in Asia, particularly South Korea

-Fluctuations in interest rates

-Losses on our securities portfolio, particularly from increases in interest rates

-Liquidity risks

-Failure to successfully manage credit risks

-Uncertainty relating to LIBOR calculation process

Risks Related to Our Loans

-Negative changes in the economy affecting real estate values and liquidity

-Commercial borrowers present risks

-Concentration in commercial real estate lending

-Risks from non-qualified single family home mortgage lending business

-Unreliability of loan appraisals used in real property loan decisions

-Small and medium business loans subject to greater risks from adverse business developments

-Underwriting practices may not forecast poor loan performance

-Lack of seasoning of our loan portfolio due to recent growth over the last five years

Risks Related of our SBA Loan Program

-Dependence on U.S. federal government SBA loan program

-Recognition of gains on sale of loans and servicing asset valuations subject to our assumptions we use

-Credit risks from non-guaranteed portion of SBA loans we retain and do not sell

-Credit risks from SBA loans we sell as a result of repurchase obligations

Risks Related to Our Deposits

-Concentrations of deposit relationships

-Competition for deposits may increase cost of deposits negatively affecting our deposit growth

Risks Related to Management

-Success depends on the skills of our management and their retention

-Competition for skilled and experienced management level senior level employees

Risks Related to Credit Quality

-Non-performing assets demand management time to resolve and can affect our financial results

-Allowance for loans losses may be insufficient to absorb potential losses in our loan portfolio

-Environmental liabilities on foreclosed real estate collateral

-Adverse effect of new accounting standards for loan losses which may increase our allowance

Risks Related to our Growth Strategy

-Inability to continue the growth of loans and deposits

-Risks related to acquisitions, including finding suitable targets and integration risks following completion

-Limited ability to expand because of an existing license agreement for the use of “Open Bank”

-Risks of entering into new markets

-Managing risks of opening new branches

-Managing risks of adding new lines of business

Risks Related to Our Capital

-Recent regulatory requirements

-Raising new capital

-Commitment to contribute 10% of our after tax income to the Open Stewardship Foundation

Competition Risks

-Competition among financial institutions, many of whom are much larger, have greater capital, more advanced technology

-Modest size makes it more difficult to compete with larger financial institutions

-Focus on marketing to the Korean-American communities in the community we serve

Other business Risks

-Costs and effects of litigation, investigations or similar matters

-Soundness of other financial institutions

-Sever weather, natural disasters (including fire and earthquakes), wide spread disease or pandemics (including the COVID-19 pandemic), acts of war, and terrorism

Risks Related to Our Reputation

-Failure to maintain a favorable reputation with our customers and communities

-Failure of our risk management framework

-Failure to implement new technology

-System failures or breaches of our network security

-Difficulties of our third-party providers, termination of their services, or their failure to comply with regulatory requirements

-Breaches of customer information, computer viruses

-Inaccurate information provided to us by customers or counter parts

-Inaccurate information provided by third party consumer reporting agencies

-Employee misconduct

Finance and Accounting Risks

-Reliance on risk management processes and analytical and forecasting models

-Realization of our deferred tax assets

-Changes in accounting standards

-Failure maintain effective controls

-Ongoing obligations and costs associated with being a public reporting company

Legislative and Regulatory Risks

-Extensive government regulation that could limit or restrict our activities

-Legislative and regulatory actions now or in the future increase our costs, impact our business and financial results

-Monetary policies and regulations of the Federal Reserve

-Federal and state regulatory exams

-Consumer protection laws and regulations

-Mortgage lender liability and penalties under federal law for making false statements

-Potential violation of predatory lending laws

-Complaints and demands of consumer advocacy groups about lending practices that discriminate based on race, religion and origin

-Noncompliance with the Bank Secrecy Act and other anti-money laundering statutes and regulations

-Commitment of capital resources to support Open Bank by OP Bancorp

-Potential limitations on proposed incentive compensation regulations that could affect our ability to attract of retain key employees

Risks Related to Our Common Stock

-Small trading volume

-Volatile trading price of our common stock

-Investment in common stock is not an insured deposit

-Equity research analysts interest in our common stock, unfavorable commentary or downgrade of our common stock

-Changes in dividend policy

-Limitations on director liability for monetary damages for failure to exercise their fiduciary duty

-Potential dilution from issuance of additional equity securities

-Issuance of preferred stock without further shareholder approval which may have rights and preferences over our common stock

-Charter documents and California law may have an anti-takeover effect limiting changes of control

-Reduced regulatory and reporting requirements as an "emerging growth company"

Risks Related to Our Business

A decline in general business and economic conditions and any regulatory responses to such conditions could have a material adverse effect on our business, financial position and results of operations.

Our business and operations are sensitive to general business and economic conditions in the United States, generally, and particularly the state of California and the Los Angeles-Long Beach-Anaheim, California Metropolitan Statistical Areas. Unfavorable or uncertain economic and market conditions could lead to credit quality concerns related to borrower repayment ability and collateral protection as well as reduced demand for the products and services we offer. Geopolitical developments, such as existing and potential trade wars and other events beyond our control, such as the coronavirus epidemic, can increase levels of political and economic unpredictability globally and increase the volatility of global financial markets. Concerns about the performance of international economies, especially in Europe and emerging markets, and economic conditions in Asia, particularly the economies of China, South Korea and Japan, can impact the economy and financial markets here in the United States. If the national, regional and local economies experience worsening economic conditions, including high levels of unemployment, our growth and profitability could be constrained. Weak economic conditions are characterized by, among other indicators, deflation, elevated levels of unemployment, fluctuations in debt and equity capital markets, increased delinquencies on mortgage, commercial and consumer loans, residential and commercial real estate price declines, and lower home sales and commercial activity. Our business is significantly affected by monetary and other regulatory policies of the U.S. federal government, its agencies and government-sponsored entities. Changes in any of these policies are influenced by macroeconomic conditions and other factors that are beyond our control, are difficult to predict and could have a material adverse effect on our business, financial position and results of operations.

Economic pressure on consumers and uncertainty regarding continuing economic improvement may result in changes in consumer and business spending, borrowing and saving habits. Such conditions could have a material adverse effect on the credit quality of our loans or our business, financial condition and results of operations.

Risks relating to the Impact of COVID-19 could have a material adverse effect on our business, financial conditions and results of operations.

The COVID-19 pandemic has had, and continues to have, a material impact on businesses around the world and the economic environments in which they operate. In March 2020, the United States declared a federal state of emergency in response to the COVID-19 pandemic, which continues to spread throughout the United States. The outbreak of this virus has disrupted global financial markets and negatively affected supply and demand across a broad range of industries. There are a number of factors associated with the outbreak and its impact on global economies including the United States that have had, and could continue to have, a material adverse effect on (among other things) the profitability, capital and liquidity of financial institutions.

The COVID-19 pandemic has caused disruption to our customers, vendors and employees. California where we primarily operate has implemented restrictions on the movement of its citizens, with a resultant significant impact on economic activity in the state. The pandemic has resulted in temporary closures of many businesses and the institution of social distancing and sheltering in place requirements in California, including our primary market area. As a result, the demand for our products and services has been and may continue to be significantly impacted. The circumstances around this pandemic are evolving rapidly and will continue to impact our business in future periods. In the United States, the federal government has taken action to provide financial support to parts of the economy most impacted by the COVID-19 pandemic. The details of how these actions will impact our customers and therefore the impact on the Company remains uncertain at this stage. The actions taken by the U.S. government and the Federal Reserve may indicate a view on the potential severity of a downturn and post recovery environment, which from a commercial, regulatory and risk perspective could be significantly different to past crises and persist for a prolonged period. The pandemic has led to a weakening in gross domestic product and employment in the United States.

As the result of the COVID-19 pandemic and the related adverse local and national economic consequences, we could be subject to any of the following risks, any of which could have a material, adverse effect on our business, financial condition and results of operations:

- demand for our products and services may decline, making it difficult to grow assets and income;
- if the economy is unable to substantially reopen, and high levels of unemployment continue for an extended period of time, loan delinquencies, problem assets, and foreclosures may increase, resulting in increased charges and reduced income;
- collateral for loans, especially real estate, may decline in value, which could cause loan losses to increase;
- our allowance for credit losses on loans may have to be increased if borrowers experience financial difficulties;
- beyond forbearance periods, which will adversely affect our net income;
- the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us;
- as the result of the decline in the Federal Reserve Board’s target federal funds rate, the yield on our assets may decline to a greater extent than the decline in our cost of interest-bearing liabilities, reducing our net interest margin and spread and reducing net income;

- a material decrease in net income or a net loss over several quarters could result in a decrease in the rate of our quarterly cash dividend;
- a prolonged weakness in economic conditions resulting in a reduction of future projected earnings could result in our recording a valuation allowance against our current outstanding deferred tax assets;
- we rely on third party vendors for certain services and the unavailability of a critical service due to the COVID-19 outbreak could have an adverse effect on us; and
- Federal Deposit Insurance Corporation premiums may increase if the agency experiences additional resolution costs.

Our future success and profitability substantially depends on the management skills of our executive officers and directors, most of whom have held officer and director positions with us for many years. The unanticipated loss or unavailability of key employees due to the outbreak could harm our ability to operate our business or execute our business strategy. We may not be successful in finding and integrating suitable successors in the event of key employee loss or unavailability.

Furthermore, if the U.S. economy experiences a recession as a result of the pandemic, our business could be materially and adversely affected. To the extent the pandemic adversely affects our business, financial condition, or results of operations, it may also have the effect of heightening many of the other risks described in this report. The extent of such impact will depend on the outcome of certain developments, including but not limited to, the duration and spread of the pandemic as well as its continuing impact on our customers, vendors and employees, all of which are uncertain.

As a participating lender in the U.S. Small Business Administration ("SBA") Paycheck Protection Program ("PPP"), we are subject to additional risks of litigation from our customers or other parties regarding our processing of loans for the PPP and risks that the SBA may not fund some or all PPP loan guaranties.

On March 27, 2020, President Trump signed the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), which included a loan program administered through the SBA referred to as the PPP. On December 27, 2020, the President signed the Consolidated Appropriation Act, 2021 ("CAA"), which included additional funding to the PPP. Under the PPP, small businesses and other entities and individuals can apply for loans from existing SBA lenders and other approved regulated lenders that enroll in the program, subject to numerous limitations and eligibility criteria. We are participating as a lender in the PPP. The first round of PPP opened on April 3, 2020; however, because of the short timeframe between the passing of the CARES Act and the opening of the PPP, there was some ambiguity in the laws, rules and guidance regarding the operation of the PPP, which exposes us to risks relating to noncompliance with the PPP. On January 13, 2021, the SBA reopened the PPP for Second Draw loans to small businesses and non-profit organizations that did receive a loan through the initial PPP phase. At least $25 billion has been set aside for Second Draw PPP loans to eligible borrowers with a maximum of 10 employees or for loans of $250,000 or less to eligible borrowers in low or moderate income neighborhoods.

Since the opening of the PPP, several other larger banks have been subject to litigation regarding the process and procedures that such banks used in processing applications for the PPP and claims related to agent fees. We may be exposed to the risk of similar litigation, from both customers and non-customers that approached us regarding PPP loans, regarding its process and procedures used in processing applications for the PPP, or litigation from agents with respect to agent fees. If any such litigation is filed against us and is not resolved in a manner favorable to the Company or the Bank, it may result in significant financial liability or adversely affect the Company's reputation. In addition, litigation can be costly, regardless of outcome. Any financial liability, litigation costs or reputational damage caused by PPP related litigation could have a material adverse impact on our business, financial condition and results of operations.

We also have credit risk on PPP loans if a determination is made by the SBA that there is a deficiency in the manner in which the loan was originated, funded, or serviced by us, such as an issue with the eligibility of a borrower to receive a PPP loan, which may or may not be related to the ambiguity in the laws, rules and guidance regarding the operation of the PPP. In the event of a loss resulting from a default on a PPP loan and a determination by the SBA that there was a deficiency in the manner in which the PPP loan was originated, funded, or serviced by us, the SBA may deny its liability under the guaranty, reduce the amount of the guaranty, or, if it has already paid under the guaranty, seek recovery of any loss related to the deficiency from us.

Changes in U.S. trade policies and other factors beyond our Company's control, including the imposition of tariffs and retaliatory tariffs, may adversely impact our business, financial condition and results of operations.

From 2018 through 2020, the U.S. government implemented tariffs on certain products from countries or entities such as Mexico, Canada, China and the European Union. These countries have issued or continue to threaten retaliatory tariffs against products from the United States. The United States and these countries may impose additional tariffs and retaliatory tariffs in the future. Tariffs, retaliatory tariffs or other trade restrictions on products and materials that our customers import or export could cause the prices of our customers' products to increase which could reduce demand for such products, or reduce our customer margins, and adversely impact their revenues, financial results and ability to service debt. This could adversely affect our financial condition and results of operations. In addition, to the extent changes in the political environment have a negative impact on us or on the markets in which we operate, our business, financial condition and results of operations could be materially and adversely impacted in the future. The passage of the United States-Mexico-Canada trade agreement ("USMCA") helped to alleviate some of these risks. The USMCA updates trading rules to better reflect 21st century technology, regulates labor and environmental standards in Mexico, tightens the rules the auto industry must follow to trade vehicles duty free across the three countries and provides tariff-free trade in North America.

Adverse conditions in Asia and elsewhere could adversely affect our business.

Although we believe we have minimal exposure to customers that have direct economic ties to South Korea and other countries in Asia, we are still likely to feel the effects of adverse economic and political conditions in South Korea and Asia, including the effects of rising inflation or slowing growth and volatility in the real estate and stock markets in South Korea and other regions. U.S. and global economic policies, military tensions in North Korea, and unfavorable global economic conditions may adversely impact the South Korean and other Asian economies. In addition, pandemics and other public health crises or concerns over the possibility of such crises could create economic and financial disruptions in the region. The coronavirus pandemic has had a material adverse effect on the Asian economies. A significant deterioration of economic conditions in Asia, and in South Korea in particular, could expose us to, among other things, economic and transfer risk, and we could experience an outflow of deposits by those of our customers with connections to Asia. Transfer risk may result when an entity is unable to obtain the foreign exchange needed to meet its obligations or to provide liquidity. This may adversely impact the recoverability of investments with, or loans made to, such entities. Adverse economic conditions in Asia, and in South Korea in particular, may also negatively impact asset values and the profitability and liquidity of our customers who operate in this region.

Fluctuations in interest rates may reduce net interest income and otherwise negatively impact our financial condition and results of operations.

Shifts in short-term interest rates may reduce net interest income, which is the principal component of our earnings. Net interest income is the difference between the amounts received by us on our interest-earning assets and the interest paid by us on our interest-bearing liabilities. When interest rates rise, the rate of interest we receive on our assets, such as loans, rises more quickly than the rate of interest that we pay on our interest-bearing liabilities, such as deposits, which may cause our profits to increase. When interest rates decrease, the rate of interest we receive on our assets, such as loans, declines more quickly than the rate of interest that we pay on our interest-bearing liabilities, such as deposits, which may cause our profits to decrease. The impact on earnings is more adverse when the slope of the yield curve flattens, that is, when short-term interest rates increase more than long-term interest rates or when long-term interest rates decrease more than short-term interest rates.

Changes in interest rates could influence our ability to originate loans and deposits. Historically, there has been an inverse correlation between the demand for loans and interest rates. Loan origination volume usually declines during periods of rising or high interest rates and increases during periods of declining or low interest rates. For example, mortgage production historically, including refinancing activity, declines in rising interest rate environments. Changes in interest rates also have a significant impact on the carrying value of certain of our assets, including loans, real estate and investment securities, on our balance sheet.

Changes in interest rates can also affect the level of loan refinancing activity, which impacts the amount of prepayment penalty income we receive on loans we hold. Because prepayment penalties are recorded as interest income when received, the extent to which they increase or decrease during any given period could have a significant impact on the level of net interest income and net income we generate during that time. A decrease in our prepayment penalty income resulting from any change in interest rates or as a result of regulatory limitations on our ability to charge prepayment penalties could therefore adversely affect our net interest income, net income or results of operations.

An increase in interest rates that adversely affects the ability of borrowers to pay the principal or interest on loans may lead to an increase in nonperforming assets and a reduction of income recognized, which could have a material adverse effect on our results of operations and cash flows. Further, when we place a loan on nonaccrual status, we reverse any accrued but unpaid interest receivable, which decreases interest income. Subsequently, we continue to have a cost to fund the loan, which is reflected as interest expense, without any interest income to offset the associated funding expense. Thus, an increase in the amount of nonperforming assets would have an adverse impact on net interest income.

Changes in interest rates also can affect the value of loans, securities and other assets. Rising interest rates will result in a decline in value of the fixed-rate debt securities we hold in our investment securities portfolio. The unrealized losses resulting from holding these securities would be recognized in accumulated other comprehensive income and reduce total shareholders' equity. Unrealized losses do not negatively impact our regulatory capital ratios. However, tangible common equity and the associated ratios would be reduced. If debt securities in an unrealized loss position are sold, such losses become realized and will reduce our regulatory capital ratios.

We could recognize losses on securities held in our securities portfolio, particularly if interest rates increase or economic and market conditions deteriorate.

Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. For example, fixed-rate securities acquired by us are generally subject to decreases in market value when interest rates rise. Additional factors include, but are not limited to, rating agency downgrades of the securities or our own analysis of the value of the security, defaults by the issuer or individual mortgagors with respect to the underlying securities, or instability in the credit markets. Any of the foregoing factors could cause other-than-temporary impairment in future periods and result in realized losses. The process for determining whether impairment is other-than-temporary usually requires difficult, subjective judgments about the future financial performance of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security. Because of changing economic and market conditions affecting interest rates, the financial condition of issuers of the securities and the performance of the underlying collateral, we may recognize realized and/or unrealized losses in future periods, which could have a material adverse effect on our financial condition and results of operations.

Liquidity risks could affect operations and jeopardize our business, financial condition, and results of operations.

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and/or investment securities and through other sources could have a substantial negative effect on our liquidity. Our most important source of funds consists of our customer deposits. Such deposit balances can decrease when customers perceive alternative investments, such as the stock market, as providing a better risk/return tradeoff. If customers move money out of bank deposits and into other investments, we could lose a relatively low cost source of funds, which would require us to seek wholesale funding alternatives in order to continue to grow, thereby increasing our funding costs and reducing our net interest income and net income.

Other primary sources of funds consist of cash from operations, investment maturities and sales, sale of loans and proceeds from the issuance and sale of our equity securities to investors. Additional liquidity is provided by our ability to borrow from the Federal Reserve Bank of San Francisco and the Federal Home Loan Bank of San Francisco. We also may borrow from third-party lenders from time to time. Our access to funding sources in amounts adequate to finance or capitalize our activities or on terms that are acceptable to us could be impaired by factors that affect us directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry.

Any decline in available funding could adversely impact our ability to continue to implement our strategic plan, including our ability to originate loans, invest in securities, meet our expenses, or to fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse effect on our liquidity, business, financial condition and results of operations.

Our business depends on our ability to successfully manage credit risk.

The operation of our business requires us to manage credit risk. As a lender, we are exposed to the risk that our borrowers will be unable to repay their loans according to their terms, and that the collateral securing repayment of their loans, if any, may not be sufficient to ensure repayment. In addition, there are risks inherent in making any loan, including risks with respect to the period of time over which the loan may be repaid, risks relating to proper loan underwriting, risks resulting from changes in economic and industry conditions and risks inherent in dealing with individual borrowers. In order to successfully manage credit risk, we must, among other things, maintain disciplined and prudent underwriting standards and ensure that our bankers follow those standards. The weakening of these standards for any reason, such as an attempt to attract higher yielding loans, a lack of discipline or diligence by our employees in underwriting and monitoring loans, the inability of our employees to adequately adapt policies and procedures to changes in economic or any other conditions affecting borrowers and the quality of our loan portfolio, may result in loan defaults, foreclosures and additional charge-offs and may necessitate that we significantly increase our allowance for loan losses, each of which could adversely affect our net income. As a result, our inability to successfully manage credit risk could have a material adverse effect on our business, financial condition and results of operations.

We may be adversely affected by the uncertainty relating to LIBOR calculation process and potential phasing out of LIBOR.

On July 27, 2017, the United Kingdom's Financial Conduct Authority ("FCA"), which regulates LIBOR, announced that it will no longer compel banks to submit rates for the calculation of LIBOR in the future. Until recently, it was generally expected that LIBOR would be discontinued on December 31, 2021. However, in November 2020, the ICE Benchmark Administrator ("IBA"), which publishes the LIBOR rates and is regulated by the FCA, announced that it would initiate a consultation that would end 1-week and 2-month LIBOR by December 31, 2021 and continue to publish all other LIBOR rates through June 30, 2023. The consultation period ended on January 25, 2021 and the IBA and FCA are discussing the results now. While the 18-month extension of certain LIBOR rates is generally expected to be implemented, the FCA has not yet issued a final decision on the matter. As such, the U.S. Federal Reserve Bank's Alternative Reference Rates Committee ("ARRC") continues to urge parties to implement the preferred alternative to LIBOR, which is SOFR, in all new contracts and use the potential 18-month extension to allow time for existing agreements that use LIBOR to either expire or be re-negotiated. ARRC selected SOFR in June 2017 as the preferred alternative rate to LIBOR. SOFR differs from LIBOR in two respects: SOFR is a single overnight rate, while LIBOR includes rates of several tenors; and SOFR is deemed a credit risk-free rate while LIBOR incorporates an evaluation of credit risk. The ARRC and other entities intend for the transition to be economically neutral. The Federal Reserve Bank of New York has proposed a methodology for generating SOFRs of three different tenors and an index is currently published with daily, 30, 90 and 180 day SOFR tenors. The ARRC has developed a methodology for adjusting SOFR to reflect the risk considerations that underlie LIBOR. On July 12, 2019, the SEC issued a statement on LIBOR transition, indicating the significant impact that the discontinuation of LIBOR could have on financial markets and market participants. Since the volume of our products that are indexed to LIBOR is significant, the transition, if not sufficiently planned for and managed by our cross-functional teams, could adversely affect the Company's financial condition and results of operations. Although implementation of the SOFR benchmark is intended to have minimal economic effect on the parties to a LIBOR-based contract, the transition from LIBOR to a new benchmark rate could result in significant operational, systems, increased compliance, legal and operational costs. This transition may also result in our customers challenging the determination of their interest payments or entering into fewer transactions or postponing their financing needs, which could reduce the Company's revenue and adversely impact our business. In addition, the uncertainty regarding the future of LIBOR as well as the transition from LIBOR to another benchmark rate or rates could have adverse impacts on floating-rate obligations, loans, deposits, derivatives, and other financial instruments that currently use LIBOR as a benchmark rate and, ultimately, adversely affect the Company's financial condition and results of operations.

Risks Related to Our Loans

Because a significant portion of our loan portfolio is comprised of real estate loans, negative changes in the economy affecting real estate values and liquidity could impair the value of collateral securing our real estate loans and result in loan and other losses.

At December 31, 2020, approximately 83% of our loan portfolio was comprised of loans with real estate as a primary or secondary component of collateral. As a result, adverse developments affecting real estate values in our market areas could increase the credit risk associated with our real estate loan portfolio. The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. Real estate values and real estate markets are generally affected by changes in national, regional or local economic conditions, the rate of unemployment, fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax laws and other governmental statutes, regulations and policies and acts of nature, such as earthquakes and natural disasters. Adverse changes affecting real estate values and the liquidity of real estate in one or more of our markets could increase the credit risk associated with our loan portfolio, significantly impair the value of property pledged as collateral on loans and affect our ability to sell the collateral upon foreclosure without a loss or additional losses, which could result in losses that would adversely affect profitability. Such declines and losses would have a material adverse effect on our business, financial condition and results of operations.

Many of our loans are to commercial borrowers, which have a higher degree of risk than other types of loans.

At December 31, 2020, we had $970.4 million of commercial loans, consisting of $651.7 million of commercial real estate loans, $211.4 million of SBA loans, and $107.3 million of commercial and industrial loans, including trade finance loans, for which real estate is not the primary source of collateral. Commercial loans represented 88% of our total loan portfolio at December 31, 2020. Commercial loans are often larger and involve greater risks than other types of lending. Because payments on such loans are often dependent on the successful operation or development of the property or business involved, repayment of such loans is often more sensitive than other types of loans to adverse conditions in the real estate market or the general business climate and economy. Accordingly, a downturn in the real estate market and a challenging business and economic environment may increase our risk related to commercial loans, particularly commercial real estate loans. Unlike home mortgage loans, which generally are made on the basis of the borrowers' ability to make repayment from their employment and other income and which are secured by real property whose value tends to be more easily ascertainable, commercial loans typically are made on the basis of the borrowers' ability to make repayment from the cash flow of the commercial venture. Our commercial and industrial loans are primarily made based on the identified cash flow of the borrower and secondarily on the collateral underlying the loans. Most often, collateral consists of accounts receivable, inventory and equipment. Inventory and equipment may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. Accounts receivable may be uncollectable. If the cash flow from business operations is reduced, the borrower's ability to repay the loan may be impaired. Due to the larger average size of each commercial loan as compared with other loans such as residential loans, as well as collateral that is generally less readily-marketable, losses incurred on a small number of commercial loans could have a material adverse effect on our business, financial condition and results of operations.

We have a concentration in commercial real estate lending which could cause our regulators to restrict our ability to grow.

As a part of their regulatory oversight, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation have issued the Commercial Real Estate ("CRE Concentration Guidance") on sound risk management practices with respect to a financial institution's concentrations in commercial real estate lending activities. The CRE Concentration Guidance was issued in response to the agencies' concerns that rising CRE concentrations might expose financial institutions to unanticipated earnings and capital volatility in the event of adverse changes in the commercial real estate market. The CRE Concentration Guidance identifies certain concentration levels that, if exceeded, will expose the institution to additional supervisory analysis with regard to the institution's CRE concentration risk. The CRE Concentration Guidance is designed to promote appropriate levels of capital and sound loan and risk management practices for financial institutions with a concentration of CRE loans. In general, the CRE Concentration Guidance establishes the following supervisory criteria as preliminary indications of possible CRE concentration risk: (1) the institution's total construction, land development and other land loans represent 100% or more of total risk-based capital; or (2) total CRE loans as defined in the regulatory guidelines represent 300% or more of total risk-based capital, and the institution's CRE loan portfolio has increased by 50% or more during the prior 36-month period. Pursuant to the CRE Concentration Guidance, loans secured by owner occupied commercial real estate are not included for purposes of CRE concentration calculation. We believe that the CRE Concentration Guidance is applicable to us. As of December 31, 2020, our non-owner occupied CRE loans represented 306.0% of our total risk-based capital, as compared to 308.3% as of December 31, 2019. Although we are actively working to manage our CRE concentration and believe that our underwriting policies, management information systems, independent credit administration process, and monitoring of real estate loan concentrations are currently sufficient to address the CRE Concentration Guidance, the FDIC or other federal regulators could become concerned about our CRE loan concentrations, and they could limit our ability to grow by, among other things, restricting their approvals for the establishment or acquisition of branches, or approvals of mergers or other acquisition opportunities.

Our single family residential loan product consists primarily of non-qualified single family home mortgage loans which may be considered less liquid and more risky.

As of December 31, 2020, our single family home mortgage loan portfolio amounted to $128.2 million or 11.7% of our total loan portfolio. As of December 31, 2020, most of our single family home mortgage loans were non-qualified mortgage loans. We originated $48.2 million and $28.8 million of single family home mortgage loans for the years ended December 31, 2020 and 2019, respectively. As of December 31, 2020, our non-qualified single family home mortgage loans had an average loan-to-value of 59%.

The non-qualified single-family home mortgage loans that we originate are designed to assist mainly Korean-Americans who have recently immigrated to the United States and those Korean-Americans without sufficient documentation to qualify for a traditional home mortgage loan and as such are willing to provide higher down payment amounts and pay higher interest rates and fees in return for reduced documentation requirements. Non-qualified single-family home mortgage loans are considered to have a higher degree of risk and are less liquid than qualified single-family home mortgage loans because non-qualified loans are not able to be securitized and can only be sold directly to other financial institutions. Qualified loans require a minimum of two years of tax returns for borrowers to demonstrate their ability to repay the loan and other standard documentation to qualify for securitization. For non-qualified loans we do not require the standard documentation required for qualified loans. For example, we will typically require only one year of tax returns and only pay-stub verification of employment. We attempt to address this enhanced risk through our underwriting process, including requiring larger down payments and, in some cases, interest reserves.

Our use of appraisals in deciding whether to make a loan on or secured by real property does not ensure the value of the real property collateral.

In considering whether to make a loan secured by real property we generally require an appraisal of the property. However, an appraisal is only an estimate of the value of the property at the time the appraisal is conducted, and an error in fact or judgment could adversely affect the reliability of an appraisal. In addition, events occurring after the initial appraisal may cause the value of the real estate to decrease. As a result of any of these factors the value of collateral securing a loan may be less than estimated, and if a default occurs, we may not recover the outstanding balance of the loan.

The small and medium-sized businesses that we lend to may have fewer resources to weather adverse business developments, which may impair a borrower's ability to repay a loan, and such impairment could adversely affect our results of operations and financial condition.

We target our business development and marketing strategy primarily to serve the banking and financial services needs of small to medium-sized businesses. These businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities, frequently have smaller market shares than their competition, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete and may experience substantial volatility in operating results, any of which may impair a borrower's ability to repay a loan. In addition, the success of a small and medium-sized business often depends on the management talents and efforts of one or two people or a small group of people, and the death, disability or resignation of one or more of these people could have a material adverse impact on the business and its ability to repay its loan. If general economic conditions negatively impact the markets in which we operate and small to medium-sized businesses are adversely affected or our borrowers are otherwise affected by adverse business developments, our business, financial condition and results of operations may be adversely affected.

We may suffer losses in our loan portfolio despite our underwriting practices.

We mitigate the risks inherent in our loan portfolio by adhering to sound and proven underwriting practices, managed by experienced and knowledgeable credit professionals. These practices include analysis of a borrower's prior credit history, financial statements, tax returns, and cash flow projections, valuations of collateral based on reports of independent appraisers and verifications of liquid assets. Although we believe that our underwriting criteria is appropriate for the various kinds of loans we make, we may incur losses on loans that meet our underwriting criteria, and these losses may exceed the amounts set aside as reserves in our allowance for loan losses.

Lack of seasoning of our loan portfolio could increase risk of credit defaults in the future.

As a result of the organic growth of our loan portfolio over the past five years, a large portion of our loans and of our lending relationships are of relatively recent origin. In general, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process referred to as "seasoning." As a result, a portfolio of older loans will usually behave more predictably than a newer portfolio.

Because a large portion of our portfolio is relatively new, the current level of delinquencies and defaults may not represent the level that may prevail as the portfolio becomes more seasoned. If delinquencies and defaults increase, we may be required to increase our provision for loan losses, which could materially and adversely affect our business, financial condition and results of operations. For information about the average age of our loans, see "Management's Discussion and Analysis of Financial Condition and Results of Operations-Financial Condition-Non-Performing Loans."

Risks Related to our SBA Loan Program

Small Business Administration lending is an important part of our business. Our SBA lending program is dependent upon the U.S. federal government, and we face specific risks associated with originating SBA loans.

Our SBA lending program is dependent upon the U.S. federal government. As an approved participant in the SBA Preferred Lender's Program (an "SBA Preferred Lender"), we enable our clients to obtain SBA loans without being subject to the potentially lengthy SBA approval process necessary for lenders that are not SBA Preferred Lenders. The SBA periodically reviews the lending operations of participating lenders to assess, among other things, whether the lender exhibits prudent risk management. When weaknesses are identified, the SBA may request corrective actions or impose enforcement actions, including revocation of the lender's SBA Preferred Lender status. If we lose our status as an SBA Preferred Lender, we may lose some or all of our customers to lenders who are SBA Preferred Lenders, and as a result we could experience a material adverse effect to our financial results. Any changes to the SBA program, including but not limited to changes to the level of guarantee provided by the federal government on SBA loans, changes to program specific rules impacting volume eligibility under the guaranty program, as well as changes to the program amounts authorized by Congress may also have a material adverse effect on our business. In addition, any default by the U.S. government on its obligations or any prolonged government shutdown could, among other things, impede our ability to originate SBA loans or sell such loans in the secondary market, which could have a material adverse effect on our business, financial condition and results of operations.

The SBA's 7(a) Loan Program is the SBA's primary program for helping start-up and existing small businesses, with financing guaranteed for a variety of general business purposes. Generally, we sell the guaranteed portion of our SBA 7(a) loans in the secondary market. These sales result in premium income for us at the time of sale and create a stream of future servicing income, as we retain the servicing rights to these loans. For the reasons described above, we may not be able to continue originating these loans or sell them in the secondary market. Furthermore, even if we are able to continue to originate and sell SBA 7(a) loans in the secondary market, we might not continue to realize premiums upon the sale of the guaranteed portion of these loans or the premiums may decline due to economic and competitive factors. When we originate SBA loans, we incur credit risk on the non-guaranteed portion of the loans, and if a customer defaults on a loan, we share any loss and recovery related to the loan pro-rata with the SBA. If the SBA establishes that a loss on an SBA guaranteed loan is attributable to significant technical deficiencies in the manner in which the loan was originated, funded or serviced by us, the SBA may seek recovery of the principal loss related to the deficiency from us. Generally, we do not maintain reserves or loss allowances for such potential claims and any such claims could materially and adversely affect our business, financial condition and results of operations.

The laws, regulations and standard operating procedures that are applicable to SBA loan products may change in the future. We cannot predict the effects of these changes on our business and profitability. Because government regulation greatly affects the business and financial results of all commercial banks and bank holding companies and especially our organization, changes in the laws, regulations and procedures applicable to SBA loans could adversely affect our ability to operate profitably.

The recognition of gains on the sale of loans and servicing asset valuations reflect certain assumptions.

We expect that gains on the sale of U.S. government guaranteed loans will comprise a significant component of our revenue. The gains on such sales recognized for the year ended December 31, 2020 was $5.9 million. The determination of these gains is based on assumptions regarding the value of unguaranteed loans retained, servicing rights retained and deferred fees and costs, and net premiums paid by purchasers of the guaranteed portions of U.S. government guaranteed loans. The value of retained unguaranteed loans and servicing rights are determined based on market derived factors such as prepayment rates, current market conditions and recent loan sales. Deferred fees and costs are determined using internal analysis of the cost to originate loans. Significant errors in assumptions used to compute gains on sale of loans or servicing asset valuations could result in material revenue misstatements, which may have a material adverse effect on our business, results of operations and profitability. In addition, while we believe these valuations reflect fair value and such valuations are subject to validation by an independent third party, if such valuations are not reflective of fair market value then our business, financial condition and results of operations may be materially and adversely affected.

The non-guaranteed portion of SBA loans that we retain on our balance sheet as well as the guaranteed portion of SBA loans that we sell could expose us to various credit and default risks.

We originated $204.1 million, including SBA PPP loans of $66.3 million for the year ended December 31, 2020, and $110.5 million for the year ended December 31, 2019 of SBA loans. We sold $113.9 million for the year ended December 31, 2020, and $85.0 million for the year ended December 31, 2019, of the guaranteed portion of our SBA loans. We generally retain the non-guaranteed portions of the SBA loans that we originate. Consequently, as of December 31, 2020, we held $238.0 million of SBA loans on our balance sheet, $146.5 million, or 62%, of which consisted of the non-guaranteed portion of SBA loans, $64.9 million, or 27%, consisted of the 100% guaranteed SBA PPP loans of SBA loans, and $26.7 million, or 11%, consisted of the guaranteed portion of SBA loans which we intend to sell in 2021. The non-guaranteed portion of SBA loans have a higher degree of credit risk and risk of loss as compared to the guaranteed portion of such loans. We generally retain the non-guaranteed portions of the SBA loans that we originate and sell, and to the extent the borrowers of such loans experience financial difficulties, our financial condition and results of operations would be materially and adversely impacted.

When we sell the guaranteed portion of SBA loans in the ordinary course of business, we are required to make certain representations and warranties to the purchaser about the SBA loans and the manner in which they were originated. Under these agreements, we may be required to repurchase the guaranteed portion of the SBA loan if we have breached any of these representations or warranties, in which case we may record a loss. In addition, if repurchase and indemnity demands increase on loans that we sell from our portfolio, our results of operations and financial condition could be materially and adversely affected.

Risks Related to Our Deposits

Our deposit portfolio includes significant concentrations and a large percentage of our deposits are attributable to a relatively small number of clients.

As a commercial bank, we provide services to a number of clients whose deposit levels vary considerably and have some seasonality. Our 10 largest retail depositor relationships accounted for approximately 11.9% of our deposits at December 31, 2020. Our largest retail depositor relationship accounted for approximately 2.1% of our deposits at December 31, 2020. These deposits can and do fluctuate substantially. The depositors are not concentrated in any industry or business. Our largest wholesale depositor relationship accounted for approximately 5.0% of our deposits at December 31, 2020. The loss of any combination of these depositors, or a significant decline in the deposit balances due to ordinary course fluctuations related to these customers' businesses, would adversely affect our liquidity and require us to raise deposit rates to attract new deposits, purchase federal funds or borrow funds on a short-term basis to replace such deposits. Depending on the interest rate environment and competitive factors, low cost deposits may need to be replaced with higher cost funding, resulting in a decrease in net interest income and net income. While these events could have a material impact on our results, we expect, in the ordinary course of business, that these deposits will fluctuate and believe we are capable of mitigating this risk, as well as the risk of losing one of these depositors, through additional liquidity, and business generation in the future. However, should a significant number of these customers leave, it could have a material adverse effect on our business, financial condition and results of operations.

Competition among U.S. banks for customer deposits is intense, may increase the cost of retaining current deposits or procuring new deposits, and may otherwise negatively affect our ability to grow our deposit base.

Any changes we make to the rates offered on our deposit products to remain competitive with other financial institutions may adversely affect our profitability and liquidity. Interest-bearing accounts earn interest at rates established by management based on competitive market factors. The demand for the deposit products we offer may also be reduced due to a variety of factors, such as demographic patterns, changes in customer preferences, reductions in consumers' disposable income, regulatory actions that decrease customer access to particular products, or the availability of competing products.

Risks Related to our Management

We are highly dependent on our management team, and the loss of our senior executive officers or other key employees could harm our ability to implement our strategic plan, impair our relationships with customers and adversely affect our business, results of operations and growth prospects.

Our success depends, in large degree, on the skills of our management team and our ability to retain, recruit and motivate key officers and employees. Our senior management team has significant industry experience, and their knowledge and relationships would be difficult to replace. Leadership changes will occur from time to time, and we cannot predict whether significant resignations will occur or whether we will be able to recruit additional qualified personnel. Competition for senior executives and skilled personnel in the financial services and banking industry is intense, which means the cost of hiring, incentivizing and retaining skilled personnel may continue to increase. We need to continue to attract and retain key personnel and to recruit qualified individuals to succeed existing key personnel to ensure the continued growth and successful operation of our business. In addition, as a provider of relationship-based commercial banking services, we must attract and retain qualified banking personnel to continue to grow our business, and competition for such personnel can be intense. Our ability to effectively compete for senior executives and other qualified personnel by offering competitive compensation and benefit arrangements may be restricted by applicable banking laws and regulations as discussed in "Supervision and Regulation—Incentive Compensation." The loss of the services of any senior executive and, in particular, Ms. Min Kim, our President and Chief Executive Officer, or other key personnel, or the inability to recruit and retain qualified personnel in the future, could have a material adverse effect on our business, financial condition and results of operations. In addition, to attract and retain personnel with appropriate skills and knowledge to support our business, we may offer a variety of benefits, which could reduce our earnings.

Risks Related to our Credit Quality

Nonperforming assets take significant time to resolve and adversely affect our results of operations and financial condition, and could result in further losses in the future.

As of December 31, 2020, our nonperforming loans (which consist of nonaccrual loans, loans past due 90 days or more and still accruing interest and loans modified under troubled debt restructurings) totaled $985,000, or 0.09% of our gross loans, and 0.07% of total assets. We did not have other real estate owned ("OREO") as of December 31, 2020.

Our nonperforming assets adversely affect our net income in various ways. We do not record interest income on nonaccrual loans or other real estate owned, thereby adversely affecting our net interest income, net income and returns on assets and equity, and our loan administration costs increase, which together with reduced interest income adversely affects our efficiency ratio. When we take collateral in foreclosure and similar proceedings, we are required to mark the collateral to its then-fair market value, which may result in a loss. These nonperforming loans and other real estate owned also increase our risk profile and the level of capital our regulators believe is appropriate for us to maintain in light of such risks. The resolution of nonperforming assets requires significant time commitments from management and can be detrimental to the performance of their other responsibilities. If we experience increases in nonperforming loans and nonperforming assets, our net interest income may be negatively impacted and our loan administration costs could increase, each of which would have an adverse effect on our net income and related ratios, such as return on assets and equity.

Our allowance for loan losses may prove to be insufficient to absorb potential losses in our loan portfolio.

We maintain an allowance for loan losses for probable incurred losses in our loan portfolio. The allowance is established through a provision for loan losses based on management's evaluation of the risks inherent in the loan portfolio and the general economy. The allowance is also appropriately increased for new loan growth. The allowance is based upon a number of factors, including the size of the loan portfolio, asset classifications, economic trends, industry experience and trends, industry and geographic concentrations, estimated collateral values, management's assessment of the credit risk inherent in the portfolio, historical loan loss experience and loan underwriting policies. The allowance is only an estimate of the probable incurred losses in the loan portfolio and may not represent actual losses realized over time, either of losses in excess of the allowance or of losses less than the allowance.

In addition, we evaluate all loans identified as impaired loans and allocate an allowance based upon our estimation of the potential loss associated with those problem loans. While we strive to carefully manage and monitor credit quality and to identify loans that may be deteriorating, at any time there are loans included in the portfolio that may result in losses, but that have not yet been identified as non-performing or potential problem loans. Through established credit practices, we attempt to identify deteriorating loans and adjust the allowance for loan losses accordingly. However, because future events are uncertain and because we may not successfully identify all deteriorating loans in a timely manner, there may be loans that deteriorate in an accelerated time frame. We cannot be sure that we will be able to identify deteriorating loans before they become nonperforming assets, or that we will be able to limit losses on those loans that have been so identified.

Although management believes that the allowance for loan losses is adequate to absorb probable incurred losses on any existing loans that may become uncollectible, we may be required to take additional provisions for loan losses in the future to further supplement the allowance for loan losses, either due to management's decision to do so or because our banking regulators require us to do so. Our bank regulatory agencies will periodically review our allowance for loan losses and the value attributed to nonaccrual loans or to real estate acquired through foreclosure and may require us to adjust our determination of the value for these items. These adjustments could have a material adverse effect on our business, financial condition and results of operations.

Liabilities from environmental regulations could materially and adversely affect our business and financial condition.

In the course of our business, we may foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clear up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, as the owner or former owner of any contaminated site, we may be subject to common law claims by third parties based on damages, and costs resulting from environmental contamination emanating from the property. If we ever become subject to significant environmental liabilities, our business, financial condition and results of operations could be materially and adversely affected.

New accounting standards may require us to increase our allowance for loan and lease losses.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 replaces the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model is applicable to the measurement of credit losses on the financial assets measured at amortized cost, including but not limited to loan receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor. For all other assets within the scope of CECL, a cumulative-effect adjustment will be recognized in retained earnings as of the beginning of the first reporting period in which the guidance is effective. In November 2018 and April 2019, the FASB issued ASUs that provided codification improvements and clarification to Topic 326. These ASUs will change the current method of providing allowances for loan losses, which could require us to increase our allowance for loan and lease losses, and will likely increase the types of data we need to collect and review to determine the appropriate level of the allowance for loan and lease losses.

The new CECL standard are effective for public business entities for fiscal years after December 15, 2019, including interim periods within those fiscal years. In October 2019, FASB agreed to delay implementation of the CECL standard for certain companies, including those companies that qualify as smaller reporting companies under SEC rules, until January 1, 2023. We currently expect to continue to qualify as a smaller reporting company based upon the current SEC definition and as a result will likely be able to defer implementation of the new CECL standard for a period of time. Nevertheless, we are currently evaluating the potential impact on our consolidated financial statements. Since the magnitude of the anticipated change in the allowance for credit losses will be impacted by economic conditions and trends in our portfolio at the time of adoption, the quantitative impact cannot yet be reasonably determined, but it is expected that we will likely be required to increase our reserves and allowance for loan loss as a result of the implementation of CECL.

Risks Related to our Growth Strategy

We may not be able to continue growing our business, particularly if we cannot increase loans and deposits through organic growth.

We have grown our consolidated assets from $125.5 million as of December 31, 2010 to $1.37 billion as of December 31, 2020, and our deposits from $103.6 million as of December 31, 2010 to $1.20 billion as of December 31, 2020. Our ability to continue to grow successfully will depend to a significant extent on our capital resources. It also will depend, in part, upon our ability to attract deposits and grow our loan portfolio and investment opportunities and on whether we can continue to fund growth while maintaining cost controls and asset quality, as well on other factors beyond our control, such as national, regional and local economic conditions and interest rate trends.

There is risk related to acquisitions.

We plan to continue to grow our business organically. However, from time to time, we may consider opportunistic strategic acquisitions that we believe support our long-term business strategy. We face significant competition from numerous other financial services institutions, many of which will have greater financial resources than we do, when considering acquisition opportunities. Accordingly, attractive acquisition opportunities may not be available to us. There can be no assurance that we will be successful in identifying or completing any future acquisitions. Acquisitions of financial institutions involve operational risks and uncertainties and acquired companies may have unforeseen liabilities, exposure to asset quality problems, key employee and customer retention problems and other problems that could negatively affect our organization. We may not be able to complete future acquisitions and, if we do complete such acquisitions, we may not be able to successfully integrate the operations, management, products and services of the entities that we acquire and eliminate redundancies. The integration process could result in the loss of key employees or disruption of the combined entity’s ongoing business or inconsistencies in standards, controls, procedures, and policies that adversely affect our ability to maintain relationships with customers and employees or achieve the anticipated benefits of the transaction. The integration process may also require significant time and attention from our management that they would otherwise direct at servicing existing business and developing new business. We may not be able to realize any projected cost savings, synergies or other benefits associated with any such acquisition we complete. We cannot determine all potential events, facts and circumstances that could result in loss or give assurances that our investigation or mitigation efforts will be sufficient to protect against any such loss.

Our ability to expand our business or make strategic acquisitions outside of California may be limited by our license agreement that restricts our ability to use the name "Open Bank."

The intellectual property rights to the use of our name "Open Bank" will continue to be one of the components of our strategy to build a relationship community bank focused on the Korean-American population base. We have not registered the trademark "Open Bank" under the trademark laws of the United States. Open Bank, S.A., a corporation organized and existing under the laws of Spain with its principal office located in Ciudad Grupo Santander, Av. Catabria Boadilla del Monte Madrid Spain ("Open Bank S.A.") originally registered the trademark "Open Bank" (U.S. Registration No. 3397518) in 2008 with the United States Patent and Trademark Office. Open Bank S.A. provides financial services in Spain and solicits financial services in the United States through the internet. Open Bank S.A. is not licensed to engage in banking services in the United States or California and to our knowledge in any other state in the United States. In February 2014, we entered into a Coexistence Agreement with Open Bank S.A. (the "Coexistence Agreement"), under which both parties agreed that we may use the name "Open Bank" in connection with banking and banking related services in the state of California and the cities of New York, Dallas, Atlanta, Chicago, Seattle and Fort Lee, New Jersey (the "Permitted Markets"). We agreed to limit all of the Bank's marketing, advertising, publicity, soliciting and or media efforts using the "Open Bank" name to primarily the Korean-American community in the Permitted Markets, however, we have the right under the Coexistence Agreement to market through the internet. The Coexistence Agreement states that these limitations are not intended to mean that we should in any way engage in discriminatory tactics or policy or in any way discriminate against non-Korean-American customers or potential customers. Under the Coexistence Agreement, Open Bank S.A. retains the right to use and market its services in relation to its registered trademark in any state or territory in the United States. The Bank further agreed not to challenge Open Bank, S.A.'s trademark registration or any future applications by Open Bank S.A. The Coexistence Agreement has no termination date and is perpetual. If Open Bank S.A. decides to become a licensed bank in California or in any of the other Permitted Markets, depending on its business and marketing plan, there could be confusion created by the use of the name "Open Bank" which could have a material adverse impact on our ability to build our brand in the Permitted Markets. In addition, if Open Bank, S.A. were to assert that we breached the Coexistence Agreement, Open Bank, S.A. could file for an injunction, seek to have us change our name or seek monetary damages, all of which could have a material adverse impact on our financial condition and results of operations. There are no approval rights of either party for any of the actions or omissions that either party may take under the Coexistence Agreement.

The Coexistence Agreement will limit our potential geographic expansion to the Permitted Markets. Those limitations could affect our overall growth over the long term. To our knowledge, Open Bank S.A. had not undertaken any actions to engage in any business or marketing activities in the United States other than have a presence on the internet through their Spanish website.

As we expand our business outside of California markets, we will encounter risks that could adversely affect us.

We primarily operate in California markets with a concentration of Korean-American individuals and businesses. However, one of our strategies is to expand beyond California into other domestic markets that have concentrations of Korean-American individuals and businesses. For example, we have loan production operations in Atlanta, Georgia, Aurora, Colorado, and Lynnwood and Seattle, Washington, and a full service branch with a commercial lending center in Carrollton, Texas, all of which have relatively high concentrations of Korean-American individuals and businesses. In the course of this expansion, we will encounter significant risks and uncertainties that could have a material adverse effect on our operations. These risks and uncertainties include increased expenses and operational difficulties arising from, among other things, our ability to attract sufficient business in new markets, to manage operations in noncontiguous market areas, to comply with all of the various local laws and regulations, and to anticipate events or differences in markets in which we have no current experience.

We must effectively manage our branch growth strategy.

We seek to expand our franchise safely and consistently. A successful growth strategy requires us to manage multiple aspects of our business simultaneously, such as following adequate loan underwriting standards, balancing loan and deposit growth without increasing interest rate risk or compressing our net interest margin, maintaining sufficient capital, maintaining proper systems and controls, and recruiting, training and retaining qualified professionals. We also may experience a lag in profitability associated with new branch openings. As part of our general growth strategy we may expand into additional communities or attempt to strengthen our position in our current markets by opening new offices, subject to any regulatory constraints on our ability to open new offices. To the extent that we are able to open additional offices, we are likely to experience the effects of higher operating expenses relative to operating income from the new operations for a period of time which would have a material adverse effect on our levels of reported net income, return on average equity and return on average assets.

New lines of business or new products and services may subject us to additional risks.

From time to time, we may implement or may acquire new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and new products and services we may invest significant time and resources. We may not achieve target timetables for the introduction and development of new lines of business and new products or services and price and profitability targets may not prove feasible. External factors, such as regulatory compliance obligations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Our Capital

As a result of the Dodd-Frank Act and recent rulemaking, we are subject to more stringent capital requirements.

In July 2013, the U.S. federal banking authorities approved the implementation of the global Basel III regulatory capital reforms, or the Basel III Capital Rules, and issued rules effecting certain changes required by the U.S. Dodd-Frank Act. The Basel III Capital Rules are applicable to all U.S. banks that are subject to minimum capital requirements as well as to bank and saving and loan holding companies, other than "small bank holding companies" (generally bank holding companies with consolidated assets of less than $1.0 billion). The Basel III Capital Rules not only increase most of the required minimum regulatory capital ratios, they introduce a new common equity Tier 1 capital ratio and the concept of a capital conservation buffer. The Basel III Capital Rules also expand the current definition of capital by establishing additional criteria that capital instruments must meet to be considered additional Tier 1 and Tier 2 capital. In order to be a "well-capitalized" depository institution under the new regime, an institution must maintain: a common equity Tier 1 capital ratio of 6.5% or more; a Tier 1 capital ratio of 8% or more; a total capital ratio of 10% or more; and a Tier 1 leverage ratio of 5% or more. The Basel III Capital Rules became effective as applied to us and the Bank on January 1, 2015 with a phase-in period that generally extended through January 1, 2019 for many of the changes.

The failure to meet applicable regulatory capital requirements could result in one or more of our regulators placing limitations or conditions on our activities, including our growth initiatives, or restricting the commencement of new activities, and could affect customer and investor confidence, our costs of funds and FDIC insurance costs, our ability to pay dividends on our common stock, our ability to make acquisitions, and our business, financial condition and results of operations.

We may need to raise additional capital in the future, and if we fail to maintain sufficient capital, whether due to losses, an inability to raise additional capital or otherwise, our financial condition, liquidity and results of operations, as well as our ability to maintain regulatory compliance, would be adversely affected.

We face significant capital and other regulatory requirements as a financial institution. Although management believes that the Company has sufficient capital to fund operations and growth initiatives for at least the next twenty-four months based on our estimated future operations, we may need to raise additional capital in the future to provide us with sufficient capital resources and liquidity to meet our commitments and business needs. In addition, the Company, on a consolidated basis, and the Bank, on a stand-alone basis, must meet certain regulatory capital requirements and maintain sufficient liquidity. Importantly, regulatory capital requirements could increase from current levels, which could require us to raise additional capital or contract our operations. Our ability to raise additional capital depends on conditions in the capital markets, economic conditions and a number of other factors, including investor perceptions regarding the banking industry, market conditions and governmental activities, and on our financial condition and performance. Any occurrence that may limit our access to the capital markets may adversely affect our capital costs and our ability to raise capital. Moreover, if we need to raise capital in the future, we may have to do so when many other financial institutions are also seeking to raise capital and would have to compete with those institutions for investors. Accordingly, we cannot assure you that we will be able to raise additional capital if needed or on terms acceptable to us. If we fail to maintain capital to meet regulatory requirements, our business, financial condition and results of operations would be materially and adversely affected.

We are committed to contribute 10% of our consolidated after tax net income to the Open Stewardship Foundation.

The Open Stewardship Foundation is our platform for our community outreach activities. We support the Foundation through our commitment formalized in the Bank's bylaws to donate an amount equal to 10% of our consolidated after tax net income to the Foundation, subject to legal and regulatory restrictions. This commitment, therefore, reduces our net income and our ability to build capital through our retained earnings.

Competition Risks

We face strong competition from financial services companies and other companies that offer commercial banking services, which could harm our business.

Our operations consist of offering commercial banking services to generate both interest and noninterest income. Many of our competitors offer the same, or a wider variety of, banking and related financial services within our market areas. These competitors include national banks, regional banks and other community banks. We also face competition from many other types of financial institutions, including savings and loan institutions, finance companies, brokerage firms, insurance companies, credit unions, mortgage banks and other financial intermediaries. In addition, a number of out-of-state financial intermediaries have opened production offices or otherwise solicit deposits in our market areas. Additionally, we face growing competition from so-called "online businesses" with few or no physical locations, including online banks, lenders and consumer and commercial lending platforms, as well as automated retirement and investment service providers. Many of these competing institutions have much greater financial and marketing resources than we have. Due to their size, many competitors can achieve larger economies of scale and may offer a broader range of products and services than we can. If we are unable to offer competitive products and services, our business may be negatively affected. Some of the financial services organizations with which we compete are not subject to the same degree of regulation as is imposed on bank holding companies and federally insured financial institutions or are not subject to increased supervisory oversight arising from regulatory examinations. As a result, these non-bank competitors have certain advantages over us in accessing funding and in providing various services and they may be subject to lower regulatory costs.

New technology and other changes are allowing parties to effectuate financial transactions that previously required the involvement of banks. For example, consumers can maintain funds in brokerage accounts or mutual funds that would have historically been held as bank deposits. Consumers can also complete transactions such as paying bills and transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as "disintermediation," could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and access to lower cost deposits as a source of funds could have a material adverse effect on our business, financial condition and results of operations.

Increased competition in our markets may result in reduced loans, deposits and commissions and brokers' fees, as well as reduced net interest margin and profitability. Ultimately, we may not be able to compete successfully against current and future competitors. If we are unable to attract and retain banking and mortgage loan customers and expand our sales market for such loans, we may be unable to continue to grow our business, and our financial condition and results of operations may be materially and adversely affected.

Our modest size makes it more difficult for us to compete.

Our modest size makes it more difficult for us to compete with other financial institutions which are generally larger and can more easily afford to invest in the marketing and technologies needed to attract and retain customers. Because our principal source of income is the net interest income we earn on our loans and investments after deducting interest paid on deposits and other sources of funds, our ability to generate the revenues needed to cover our expenses and finance such investments is limited by the size of our loan and investment portfolios. Accordingly, we are not always able to offer new products and services as quickly as our competitors. As a smaller institution, we are also disproportionately affected by the continually increasing costs of compliance with new banking and other regulations.

We focus on marketing our services to a limited segment of the population and any adverse change impacting such segment is likely to have an adverse impact on us.

Our marketing focuses primarily on the banking needs of small- and medium-sized businesses, professionals and residents in the Korean-American communities that we serve. This demographic concentration makes us more prone to circumstances that particularly affect this segment of the population. As a result, our financial condition and results of operations are subject to changes in the economic conditions affecting these communities. Our success depends upon the business activity, population, income levels, deposits and real estate activity in these communities. Although our customers' business and financial interests may extend well beyond these communities, adverse economic conditions that affect these communities could reduce our growth rate, affect the ability of our customers to repay their loans to us and generally affect our financial condition and results of operations. Because of our geographic concentration, we are less able than regional or national financial institutions to diversify our credit risks across multiple markets.

Other Business Risks

The costs and effects of litigation, investigations or similar matters, or adverse facts and developments related thereto, could materially affect our business, operating results and financial condition.

We may from time to time become involved in a variety of litigation, investigations or similar matters arising out of our business. It is inherently difficult to assess the outcome of these matters, and we may not prevail in any proceedings or litigation. Any claims and lawsuits, and the disposition of such claims and lawsuits, whether through settlement or litigation, could be time-consuming and expensive to resolve, divert management attention from executing our business plan, and lead to attempts on the part of other parties to pursue similar claims. Any claims asserted against us, regardless of merit or eventual outcome may harm our reputation. Any adverse determination related to pending or other litigation could have a material adverse effect on our business, financial condition and results of operations.

We may be adversely affected by the soundness of other financial institutions.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services companies are interrelated as a result of trading, clearing, counterparty, and other relationships. We have exposure to different industries and counterparties, and through transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, and other institutional clients. As a result, defaults by, or even rumors or questions about, one or more financial services companies, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. These losses or defaults could have a material adverse effect on our business, financial condition, results of operations and growth prospects. Additionally, if our competitors were extending credit on terms we found to pose excessive risks, or at interest rates which we believed did not warrant the credit exposure, we may not be able to maintain our business volume and could experience deteriorating financial performance.

Severe weather, natural disasters, pandemics, acts of war or terrorism and other external events could significantly impact our business.

Severe weather, natural disasters (including fires and earthquakes), wide spread disease or pandemics (including the COVID-19 pandemic), acts of war or terrorism and other adverse external events could have a significant impact on our ability to conduct business. Such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause us to incur additional expenses. For example, our primary market areas in Southern California are subject to earthquakes and fires. Operations in our market areas could be disrupted by both the evacuation of large portions of the population as well as damage to and/or lack of access to our banking and operation facilities.

Although management has established disaster recovery policies and procedures, the occurrence of any such events could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Our Reputation and Operations

Our ability to maintain our reputation is critical to the success of our business, and the failure to do so may materially adversely affect our business and the value of our common stock.

We are a community bank, and our reputation is one of the most valuable components of our business. Threats to our reputation can come from many sources, including adverse sentiment about financial institutions generally, unethical practices, employee misconduct, failure to deliver minimum standards of service or quality, compliance deficiencies, and questionable or fraudulent activities of our customers. Negative publicity regarding our business, employees, or customers, with or without merit, may result in the loss of customers, investors and employees, costly litigation, a decline in revenues and increased governmental regulation. If our reputation is negatively affected, by the actions of our employees or otherwise, our business and, therefore, our operating results and the value of our common stock may be materially adversely affected.

Our risk management framework may not be effective in mitigating risks and/or losses to us.

Our risk management framework is comprised of various processes, systems and strategies, and is designed to manage the types of risk to which we are subject, including, among others, credit, market, liquidity, interest rate and compliance. Our framework also includes financial or other modeling methodologies that involve management assumptions and judgment. Our risk management framework may not be effective under all circumstances and may not adequately mitigate any risk or loss to us. If our risk management framework is not effective, we could suffer unexpected losses and our business, financial condition, results of operations or growth prospects could be materially and adversely affected. We may also be subject to potentially adverse regulatory consequences.

We have a continuing need for technological change, and we may not have the resources to effectively implement new technology or we may experience operational challenges when implementing new technology.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations.

Many of our competitors have substantially greater resources to invest in technological improvements than we do. We may not be able to effectively implement new, technology-driven products and services or be successful in marketing these products and services to our customers. In addition, the implementation of technological changes and upgrades to maintain current systems and integrate new ones may also cause service interruptions, transaction processing errors and system conversion delays and may cause us to fail to comply with applicable laws. Failure to successfully keep pace with technological change affecting the financial services industry and avoid interruptions, errors and delays could have a material adverse effect on our business, financial condition or results of operations.

We expect that new technologies and business processes applicable to the consumer credit industry will continue to emerge, and these new technologies and business processes may be better than those we currently use. Because the pace of technological change is high and our industry is intensely competitive, we may not be able to sustain our investment in new technology as critical systems and applications become obsolete or as better ones become available. A failure to maintain current technology and business processes could cause disruptions in our operations or cause our products and services to be less competitive, all of which could have a material adverse effect on our business, financial condition or results of operations.

Many of our larger competitors have substantially greater resources to invest in technological improvements. As a result, they may be able to offer additional or superior products to those that we will be able to offer, which would put us at a competitive disadvantage. Accordingly, a risk exists that we will not be able to effectively implement new technology-driven products and services or be successful in marketing such products and services to our customers.

System failure or breaches of our network security could subject us to increased operating costs as well as litigation and other liabilities.

The computer systems and network infrastructure we use could be vulnerable to hardware and cyber security issues. Our operations are dependent upon our ability to protect our computer equipment against damage from fire, power loss, telecommunications failure or a similar catastrophic event. We could also experience a breach by intentional or negligent conduct on the part of employees or other internal or external sources, including our third-party vendors. Any damage or failure that causes an interruption in our operations could have an adverse effect on our financial condition and results of operations. In addition, our operations are dependent upon our ability to protect the computer systems and network infrastructure utilized by us, including our internet banking activities, against damage from physical break-ins, cyber security breaches and other disruptive problems caused by the internet or other users. Such computer break-ins and other disruptions would jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability, damage our reputation and inhibit the use of our internet banking services by current and potential customers, any of which may result in a material adverse effect on our business, financial condition and results of operations.

We rely heavily on communications, information systems (both internal and provided by third parties) and the internet to conduct our business. Our business is dependent on our ability to process and monitor large numbers of daily transactions in compliance with legal, regulatory and internal standards and specifications. In addition, a significant portion of our operations relies heavily on the secure processing, storage and transmission of personal and confidential information, such as the personal information of our customers and clients.

U.S. financial institutions have experienced significant distributed denial-of-service attacks, some of which involved sophisticated and targeted attacks intended to disable or degrade service, or sabotage systems. Other attacks have attempted to obtain unauthorized access to confidential information or destroy data, often through the introduction of computer viruses or malware, cyber-attacks and other means. To date, none of these types of attacks have had a material effect on our business or operations. However, no assurances can be provided that we may not suffer from such an attack in the future that may cause us material harm. Such security attacks can originate from a wide variety of sources, including persons who are involved with organized crime or who may be linked to terrorist organizations or hostile foreign governments. Those same parties may also attempt to fraudulently induce employees, customers or other users of our systems to disclose sensitive information in order to gain access to our data or that of our customers or clients. We are also subject to the risk that our employees may intercept and transmit unauthorized confidential or proprietary information. An interception, misuse or mishandling of personal, confidential or proprietary information being sent to or received from a customer or third party could result in legal liability, remediation costs, regulatory action and reputational harm to us.

Although we regularly add additional security measures to our computer systems and network infrastructure to mitigate the possibility of cyber security breaches, including firewalls and penetration testing, it is difficult or impossible to defend against every risk being posed by changing technologies as well as criminals intent on committing cyber-crime. Increasing sophistication of cyber criminals and terrorists make keeping up with new threats difficult and could result in a data security breach. Controls employed by our information technology department and cloud vendors could prove inadequate. A breach of our security that results in unauthorized access to our data could expose us to a disruption or challenges relating to our daily operations, as well as to data loss, litigation, damages, fines and penalties, significant increases in compliance costs and reputational damage, any of which could have a material adverse effect on our business, financial condition and results of operations.

We maintain a system of internal controls and insurance coverage to mitigate against operational risks, including data processing system failures and errors and customer or employee fraud. If our internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds applicable insurance limits, it could have a material adverse effect on our business, financial condition and results of operations.

Our operations could be interrupted if our third-party service providers experience difficulty, terminate their services or fail to comply with banking regulations.

We depend to a significant extent on relationships with third-party service providers. Specifically, we utilize third party core banking services and receive credit card and debit card services, branch capture services, Internet banking services and services complementary to our banking products from various third party service providers. These types of third party relationships are subject to increasingly demanding regulatory requirements and attention by our federal bank regulators. Recent regulation requires us to enhance our due diligence, ongoing monitoring and control over our third party vendors and other ongoing third party business relationships. In certain cases, we may be required to renegotiate our agreements with these vendors to meet these enhanced requirements, which could increase our costs. We expect that our regulators will hold us responsible for deficiencies in our oversight and control of our third party relationships and in the performance of the parties with which we have these relationships, which could result in enforcement actions, including civil money penalties or other administrative or judicial penalties or fines as well as requirements for customer remediation, any of which could have a material adverse effect on our business, financial condition or results of operations. In addition, if these third party service providers experience difficulties or terminate their services and we are unable to replace them with other service providers, our operations could be interrupted. It may be difficult for us to replace some of our third party vendors, particularly vendors providing our core banking, credit card and debit card services, in a timely manner if they were unwilling or unable to provide us with these services in the future for any reason. If an interruption were to continue for a significant period of time, it could have a material adverse effect on our business, financial condition or results of operations. Even if we are able to replace them, it may be at higher cost to us, which could have a material adverse effect on our business, financial condition and results of operations. In addition, if a third party provider fails to provide the services we require, fails to meet contractual requirements, such as compliance with applicable laws and regulations, or suffers a cyber-attack or other security breach, our business could suffer economic and reputational harm that could have a material adverse effect on our business, financial condition and results of operations.

Confidential customer information transmitted through our online banking service is vulnerable to security breaches and computer viruses, which could expose us to litigation and adversely affect our reputation and ability to generate deposits.

We provide our customers the ability to bank online. The secure transmission of confidential information over the Internet is a critical element of online banking. Our network could be vulnerable to unauthorized access, computer viruses, phishing schemes and other security problems. We may be required to spend significant capital and other resources to protect against the threat of security breaches and computer viruses, or to alleviate problems caused by security breaches or viruses. To the extent that our activities or the activities of our customers involve the storage and transmission of confidential information, security breaches and viruses could expose us to claims, litigation and other possible liabilities. Any inability to prevent security breaches or computer viruses could also cause existing customers to lose confidence in our systems and could adversely affect our reputation and our ability to generate deposits.

We depend on the accuracy and completeness of information provided by customers and counterparties and any misrepresented information could adversely affect our business, financial condition and results of operations.

In deciding whether to extend credit or to enter into other transactions with customers and counterparties, we rely on information furnished to us by or on behalf of such customers and counterparties, including financial statements and other financial information. Some of the information regarding customers provided to us is also used in our proprietary credit decision and scoring models, which we use to determine whether to do business with customers and the risk profiles of such customers which are subsequently utilized by counterparties who lend us capital to fund our operations. We also rely on representations of customers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. While we have a practice of seeking to independently verify some of the customer information that we use in deciding whether to extend credit or to agree to a loan modification, including employment, assets, income and credit score, not all customer information is independently verified, and if any of the information that is independently verified (or any other information considered in the loan review process) is misrepresented and such misrepresentation is not detected prior to loan funding, the value of the loan may be significantly lower than expected. Whether a misrepresentation is made by the applicant, another third party or one of our employees, we generally bear the risk of loss associated with the misrepresentation. We may not detect all misrepresented information in our originations or from service providers we engage to assist in the approval process. Any such misrepresented information could have a material adverse effect on our business, financial condition and results of operations.

Credit and other information that we receive from third parties about a borrower may be inaccurate or may not accurately reflect the borrower's creditworthiness, which may cause us to inaccurately price loans.

We obtain borrower credit information from consumer reporting agencies, such as TransUnion, Experian or Equifax, and assign loan grades to loan requests based on our credit decisions that takes into account reported credit score, other information reported by the consumer reporting agencies and the requested loan amount, in addition to a variety of other factors. A credit score or loan grade assigned to a borrower may not reflect that borrower's actual creditworthiness because the credit score may be based on outdated, incomplete, fraudulent or inaccurate consumer reporting data, and we do not independently verify the information obtained from the borrower's credit report. Additionally, there is a risk that, following the date of the credit report that we obtain and review, a borrower may have:

- become delinquent in the payment of an outstanding obligation;
- defaulted on a pre-existing debt obligation;
- taken on additional debt;
- lost his or her job or other sources of income; or
- sustained other adverse financial events.

If borrowers default on loans that are not priced correctly, our reputation may be harmed and we may suffer other adverse effects.

Employee misconduct could expose us to significant legal liability and reputational harm.

We are vulnerable to reputational harm because we operate in an industry in which integrity and the confidence of our customers are of critical importance. Our employees could engage in fraudulent, illegal, wrongful or suspicious activities, and/or activities resulting in consumer harm that adversely affects our customers and/or our business. The precautions we take to detect and prevent such misconduct may not always be effective and regulatory sanctions and/or penalties, serious harm to our reputation, financial condition, customer relationships and ability to attract new customers. In addition, improper use or disclosure of confidential information by our employees, even if inadvertent, could result in serious harm to our reputation, financial condition and current and future business relationships. If our internal controls against operational risks fail to prevent or detect an occurrence of such employee error or misconduct, or if any resulting loss is not insured or exceeds applicable insurance limits, it could have a material adverse effect on our business, financial condition and results of operations.

Finance and Accounting Risks

Our accounting estimates and risk management processes rely on analytical and forecasting models.

Processes that management uses to estimate our probable credit losses and to measure the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates and other market measures on our financial condition and results of operations, depend upon the use of analytical and forecasting models. These models reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen circumstances. Even if these assumptions are accurate, the models may prove to be inadequate or inaccurate because of other flaws in their design or their implementation.

If the models that management uses for interest rate risk and asset liability management are inadequate, we may incur increased or unexpected losses upon changes in market interest rates or other market measures. If the models that management uses for determining our probable credit losses are inadequate, the allowance for loan losses may not be sufficient to support future charge offs. If the models that management uses to measure the fair value of financial instruments are inadequate, the fair value of such financial instruments may fluctuate unexpectedly or may not accurately reflect what we could realize upon sale or settlement of such financial instruments. Any such failure in management's analytical or forecasting models could have a material adverse effect on our business, financial condition and results of operations.

We have significant deferred tax assets and we cannot assure that it will be fully realized.

Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between the carrying amounts and tax basis of assets and liabilities computed using enacted tax rates. We regularly assess available positive and negative evidence to determine whether it is more likely than not that our net deferred tax asset will be realized. Realization of a deferred tax asset requires us to apply significant judgment and is inherently speculative because it requires estimates that cannot be made with certainty. At December 31, 2020, we had net deferred tax assets of $5.2 million. If we were to determine at some point in the future that we will not achieve sufficient future taxable income to realize our net deferred tax asset, we would be required, under U.S. generally accepted accounting principles, to establish a full or partial valuation allowance which would require us to incur a charge to operations for the period in which the determination was made.

Changes in accounting standards could materially impact our financial statements.

From time to time, the FASB or the Securities and Exchange Commission, or SEC, may change the financial accounting and reporting standards that govern the preparation of our financial statements. Such changes may result in us being subject to new or changing accounting and reporting standards. In addition, the bodies that interpret the accounting standards (such as banking regulators or outside auditors) may change their interpretations or positions on how these standards should be applied. These changes may be beyond our control, can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retrospectively, or apply an existing standard differently, also retrospectively, in each case resulting in our needing to revise or restate prior period financial statements. Restating or revising our financial statements may result in reputational harm or may have other adverse effects on us.

Failure to maintain effective internal controls over financial reporting could have a material adverse effect on our business and stock price.

As a public company with SEC reporting obligations, we are required to document and test our internal control procedures to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act, which require annual assessments by management of the effectiveness of our internal control over financial reporting. We are an emerging growth company, and are therefore exempt from the auditor attestation requirement of Section 404(b) of Sarbanes-Oxley until such time as we no longer qualify as an emerging growth company. Regardless of whether we qualify as an emerging growth company, we still need to implement and maintain substantial internal control systems and procedures in order to satisfy the reporting requirements under the Exchange Act and applicable requirements.

During the course of our assessment, we may identify deficiencies that we are unable to remediate in a timely manner. Testing and maintaining our internal control over financial reporting may also divert management's attention from other matters that are important to the operation of our business. We may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404 of Sarbanes-Oxley. If we conclude that our internal control over financial reporting is not effective, we cannot be certain as to the timing of the completion of our evaluation, testing and remediation actions or their effect on our operations. Moreover, any material weaknesses or other deficiencies in our internal control over financial reporting may impede our ability to file timely and accurate reports with the SEC. Any of the above could cause investors to lose confidence in our reported financial information or our common stock listing on NASDAQ Global Market to be suspended or terminated, which could have a negative effect on the trading price of our common stock. In addition, we could become subject to investigations by the NASDAQ Global Market, the SEC, the Board of Governors of the Federal Reserve System, the FDIC, the DFPI or other regulatory authorities, which could require additional financial and management resources. These events could have a material adverse effect on our business, financial condition and results of operations.

The obligations associated with being a public company will require significant resources and management attention, which may divert from our business operations.

As a result of our initial public offering in March 2018, we became subject to the reporting requirements of the Exchange Act and the Sarbanes-Oxley Act. The Exchange Act requires that we file annual, quarterly and current reports with respect to our business and financial condition and proxy statements with the SEC. The Sarbanes-Oxley Act requires, among other things, that we establish and maintain effective internal controls and procedures for financial reporting. As a result, we incur significant legal, accounting and other expenses. These costs materially increase our general and administrative expenses.

Legislative and Regulatory Risks

We are subject to extensive government regulation that could limit or restrict our activities, which in turn may adversely impact our ability to increase our assets and earnings.

We operate in a highly regulated environment and are subject to supervision and regulation by a number of governmental regulatory agencies, including the Federal Reserve, the FDIC and the DFPI. Regulations adopted by these agencies, which are generally intended to provide protection for depositors and customers rather than for the benefit of shareholders, govern a comprehensive range of matters relating to ownership and control of our shares, our acquisition of other companies and businesses, permissible activities for us to engage in, maintenance of adequate capital levels, and other aspects of our operations. These bank regulators possess broad authority to prevent or remedy unsafe or unsound practices or violations of law. The laws and regulations applicable to the banking industry could change at any time and we cannot predict the effects of these changes on our business, profitability or growth strategy. Increased regulation could increase our cost of compliance and adversely affect profitability. Moreover, certain of these regulations contain significant punitive sanctions for violations, including monetary penalties and limitations on a bank's ability to implement components of its business plan, such as expansion through mergers and acquisitions or the opening of new branch offices. In addition, changes in regulatory requirements may add costs associated with compliance efforts. Furthermore, government policy and regulation, particularly as implemented through the Federal Reserve System, significantly affect credit conditions. Negative developments in the financial industry and the impact of new legislation and regulation in response to those developments could negatively impact our business operations and adversely impact our financial performance. In addition, adverse publicity and damage to our reputation arising from the failure or perceived failure to comply with legal, regulatory or contractual requirements could affect our ability to attract and retain customers.

Legislative and regulatory actions taken now or in the future may increase our costs and impact our business, governance structure, financial condition or results of operations. Proposed legislative and regulatory actions, including changes to financial regulation, may not occur on the timeframe that is expected, or at all, which could result in additional uncertainty for our business.

Current and recent economic conditions, particularly in the financial markets, have resulted in government regulatory agencies and political bodies placing increased focus and scrutiny on the financial services industry. The Dodd-Frank Act significantly changed the regulation of financial institutions and the financial services industry. The Dodd-Frank Act and the regulations thereunder affect large and small financial institutions, including several provisions that will affect how community banks, thrifts and small bank and thrift holding companies will be regulated in the future.

The Economic Growth Act repeals or modifies certain provisions of the Dodd-Frank Act and eases regulations on all but the largest banks. The Economic Growth Act also includes regulatory relief for certain institutions, whereby among other things, it simplifies regulatory capital requirements. Institutions with less than $10 billion in total consolidated assets that meet community bank leverage ratio of greater than 8% in 2020, 8.5% in 2021, and 9% beginning on January 1, 2022 will automatically be deemed to be well-capitalized, although regulators retain the flexibility to determine that a depository institution may not qualify for the community bank leverage ratio test based on the institution's risk profile. The Economic Growth Act exempts community banks from Section 13 of the BHCA if they have less than $10 billion in total consolidated assets. It also exempts banks with less than $10 billion in assets, and total trading assets and liabilities not exceeding more than five percent of their total assets, from the Volcker Rule restrictions on trading with their own capital. Additionally, the Economic Growth Act seeks to permit formation and expansion of small bank holding companies by extending supervisory treatment under the Federal Reserve Board's Small Bank Holding Company Policy Statement to bank holding companies with pro forma consolidated assets below the $3 billion threshold. It also permits qualifying depository institutions with under $3 billion in total assets to benefit from an extended 18-month examination schedule. The Economic Growth Act also added certain protections for consumers, including veterans and active duty military personnel, expanded credit freezes and created an identity theft protection database.

New proposals for legislation continue to be introduced in the U.S. Congress that could further substantially increase regulation of the financial services industry, impose restrictions on the operations and general ability of firms within the industry to conduct business consistent with historical practices, including in the areas of compensation, interest rates, financial product offerings and disclosures, and have an effect on bankruptcy proceedings with respect to consumer residential real estate mortgages, among other things. Federal and state regulatory agencies also frequently adopt changes to their regulations or change the manner in which existing regulations are applied

Certain aspects of current or proposed regulatory or legislative changes, including to laws applicable to the financial industry and further changes to the U.S. corporate tax code, if enacted or adopted, may impact the profitability of our business activities, require more oversight or change certain of our business practices, including the ability to offer new products, obtain financing, attract deposits, make loans and achieve satisfactory interest spreads, and could expose us to additional costs, including increased compliance costs. These changes also may require us to invest significant management attention and resources to make any necessary changes to operations to comply, and could have a material adverse effect on our business, financial condition and results of operations. In addition, any proposed legislative or regulatory changes, including those that could benefit our business, financial condition and results of operations, may not occur on the timeframe that is proposed, or at all, which could result in additional uncertainty for our business.

Monetary policies and regulations of the Federal Reserve could adversely affect our business, financial condition and results of operations.

In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the Federal Reserve. An important function of the Federal Reserve is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve to implement these objectives are open market purchases and sales of U.S. government securities, adjustments of the discount rate and changes in banks' reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits. The monetary policies and regulations of the Federal Reserve have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future.

Federal and state regulators periodically examine our business, and we may be required to remediate adverse examination findings.

The Federal Reserve, the FDIC, and the DFPI periodically examine our business, including our compliance with laws and regulations. If, as a result of an examination, a banking agency were to determine that our financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that we were in violation of any law or regulation, they may take a number of different remedial actions as they deem appropriate. These actions include the power to enjoin "unsafe or unsound" practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to assess civil money penalties, to fine or remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate our deposit insurance and place us into receivership or conservatorship. Any regulatory action against us could have an adverse effect on our business, financial condition and results of operations.

We are subject to numerous laws designed to protect consumers, including the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions.

The Community Reinvestment Act, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose non-discriminatory and other requirements on financial institutions. The U.S. Department of Justice and other federal agencies, including the FDIC and the CFPB, are responsible for enforcing these laws and regulations. A successful challenge to an institution's performance under the Community Reinvestment Act, fair lending and other compliance laws and regulations could result in a wide variety of sanctions, including the required payment of damages and civil money penalties, injunctive relief, imposition of restrictions on mergers and acquisitions activity and restrictions on expansion. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. The costs of defending, and any adverse outcome from, any such challenge could damage our reputation or could have a material adverse effect on our business, financial condition or results of operations.

The federal government is increasingly seeking significant monetary damages and penalties against mortgage lenders and servicers under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (“FIRREA”) and the False Claims Act (“FCA”) for making false statements and seeking reimbursement for ineligible costs and expenses.

The federal government has initiated a number of actions against mortgage lenders and servicers alleging violations of FIRREA and the FCA. Some of the actions against lenders allege that the lenders sold defective loans to Fannie Mae and Freddie Mac, while representing that the loans complied with the government-sponsored enterprise’s underwriting guidelines. The federal government has also brought actions against lenders asserting that they submitted claims for loans insured by the Fair Housing Administration, or FHA, that the lender falsely certified to U.S. Department of Housing and Urban Development met FHA underwriting requirements that resulted in FHA paying out millions of dollars in insurance claims to cover the defaulted loans. Other allegations involve the Home Affordable Modification Program (“HAMP”), which is a federal program established to help eligible homeowners impacted by financial hardship by offering them loan modifications on their mortgages. HAMP requires participating mortgage servicers to file annual certifications that they have been truthful and accurate in their HAMP-related activities, including reports they submitted to the government in which they acknowledged that providing false or fraudulent information may violate the FCA. Actions have also been filed against certain banks alleging they improperly denied borrowers access to HAMP services, and submitted fraudulent certifications and accepted financial incentives for HAMP participation. Because these actions carry the possibility for treble damages, many have resulted in settlements totaling in the hundreds of millions of dollars, as well as required lenders and servicers to make significant changes in their practices.

We may be subject to liability for potential violations of predatory lending laws, which could adversely impact our business, financial condition and results of operations.

Various U.S. federal, state and local laws have been enacted to discourage predatory lending practices. The U.S. Home Ownership and Equity Protection Act of 1994 (“HOEPA”) prohibits inclusion of certain provisions in mortgages that have interest rates or origination costs in excess of prescribed levels and requires that borrowers be given certain disclosures prior to origination. Some states have enacted, or may enact, similar laws or regulations, which in some cases impose restrictions and requirements greater than those in HOEPA. In addition, under the anti-predatory lending laws of some states, the origination of certain mortgages, including loans that are not classified as “high-cost” loans under applicable law, must satisfy a net tangible benefit test with respect to the related borrower. Such tests may be highly subjective and open to interpretation. As a result, a court may determine that a home mortgage, for example, does not meet the test even if the related originator reasonably believed that the test was satisfied. If any of our mortgages are found to have been originated in violation of predatory or abusive lending laws, we could incur losses, which could have a material adverse effect on our business, financial condition and results of operations.

Regulatory agencies and consumer advocacy groups are becoming more aggressive in asserting claims that the practices of lenders and loan servicers result in a disparate impact on protected classes.

Antidiscrimination statutes, such as the Fair Housing Act and the Equal Credit Opportunity Act (“ECOA”), prohibit creditors from discriminating against loan applicants and borrowers based on certain characteristics, such as race, religion and national origin. Various federal regulatory agencies and departments, including the U.S. Department of Justice and the CFPB, take the position that these laws apply not only to intentional discrimination, but also to neutral practices that have a disparate impact on a group that shares a characteristic that a creditor may not consider in making credit decisions protected classes (i.e., creditor or servicing practices that have a disproportionate negative affect on a protected class of individuals). These regulatory agencies, as well as consumer advocacy groups and plaintiffs’ attorneys, are focusing greater attention on “disparate impact” claims. The U.S. Supreme Court recently confirmed that the “disparate impact” theory applies to cases brought under the Fair Housing Act, while emphasizing that a causal relationship must be shown between a specific policy of the defendant and a discriminatory result that is not justified by a legitimate objective of the defendant. Although it is still unclear whether the theory applies under ECOA, regulatory agencies and private plaintiffs can be expected to continue to apply it to both the Fair Housing Act and ECOA in the context of mortgage lending and servicing. To extent that the “disparate impact” theory continues to apply, we will be faced with significant administrative burdens in attempting to comply, and potential liability for failures to comply.

In addition to reputational harm, violations of ECOA and the Fair Housing Act can result in actual damages, punitive damages, injunctive or equitable relief, attorneys’ fees and civil money penalties.

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The Bank Secrecy Act, the USA Patriot Act and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and to file reports such as suspicious activity reports and currency transaction reports. We are required to comply with these and other anti-money laundering requirements. The federal banking agencies and Financial Crimes Enforcement Network are authorized to impose significant civil money penalties for violations of those requirements and have recently engaged in coordinated enforcement efforts against banks and other financial services providers with the U.S. Department of Justice, Drug Enforcement Administration and Internal Revenue Service. We are also subject to increased scrutiny of compliance with the rules enforced by the OFAC. If our policies, procedures and systems are deemed deficient, we would be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition plans.

Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could have a material adverse effect on our business, financial condition and results of operation.

The Federal Reserve may require us to commit capital resources to support the Bank.

As a matter of policy, the Federal Reserve expects a bank holding company to act as a source of financial and managerial strength to a subsidiary bank and to commit resources to support such subsidiary bank. The Dodd-Frank Act codified the Federal Reserve's policy on serving as a source of financial strength. Under the "source of strength" doctrine, the Federal Reserve may require a bank holding company to make capital injections into a troubled subsidiary bank and may charge the bank holding company with engaging in unsafe and unsound practices for failure to commit resources to a subsidiary bank. A capital injection may be required at times when the bank holding company may not have the resources to provide it and therefore may be required to borrow the funds or raise capital. Any loans by a bank holding company to its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a bank holding company's bankruptcy, the bankruptcy trustee will assume any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the institution's general unsecured creditors, including the holders of its note obligations. Thus, any borrowing that must be incurred by us to make a required capital injection to the Bank becomes more difficult and expensive and could have an adverse effect on our business, financial condition and results of operations.

Regulations relating to privacy, information security and data protection could increase our costs, affect or limit how we collect and use personal information.

We are subject to an increasing number of federal and state privacy, information security and data protection laws, including requirements concerning security breach notification, and we could be negatively impacted by these laws. Moreover, legislators and regulators in the United States are increasingly adopting or revising privacy, information security and data protection laws that potentially could have a significant impact on our current and planned privacy, data protection and information security-related practices, as well as on our collection, use, sharing, retention and safeguarding of consumer or employee information. The effects of these privacy and data protection laws, including the cost of compliance and required changes in the manner in which the Company conducts its business, are not fully known and are potentially significant, and the failure to comply could have a material adverse effect on our business, financial condition and results of operations.

Potential limitations on incentive compensation contained in proposed federal agency rulemaking may adversely affect our ability to attract and retain our highest performing employees.

During the second quarter of 2016, the Federal Reserve and the FDIC, along with other U.S. regulatory agencies, jointly published proposed rules designed to implement provisions of the Dodd-Frank Act prohibiting incentive compensation arrangements that would encourage inappropriate risk taking at covered financial institutions, which includes a bank or bank holding company with $1 billion or more in assets. It cannot be determined at this time whether or when a final rule will be adopted and whether compliance with such a final rule will substantially affect the manner in which we structure compensation for our executives and other employees. Depending on the nature and application of the final rules, we may not be able to compete successfully with certain financial institutions and other companies that are not subject to some or all of the rules to retain and attract executives and other high performing employees. If this were to occur, relationships that we have established with our clients may be impaired and our business, financial condition and results of operations could be adversely affected, perhaps materially.

Risks Related to Our Common Stock

The trading volume in our common stock is less than that of other larger financial services companies.

Although our common stock is listed for trading on the Nasdaq Global Market its trading volume is generally less than that of other, larger financial services companies, and investors are not assured that a liquid market will exist at any given time for our common stock. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace at any given time of willing buyers and sellers of our common stock. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the lower trading volume of our common stock, significant sales of our common stock, or the expectation of these sales, could cause our stock price to fall.

The trading price of our common stock could be volatile.

The market price of our common stock may be volatile and could be subject to wide fluctuations in price in response to various factors, some of which are beyond our control. These factors include, among other things:

- actual or anticipated variations in our quarterly results of operations;
- recommendations by securities analysts;
- operating and stock price performance of other companies that investors deem comparable to us;
- news reports relating to trends, concerns and other issues in the financial services industry generally;
- perceptions in the marketplace regarding us and/or our competitors;
- fluctuations in the stock price and operating results of our competitors;
- domestic and international economic factors unrelated to our performance;
- general market conditions and, in particular, developments related to market conditions for the financial services industry;
- new technology used, or services offered, by competitors; and
- changes in government regulations.

In addition, if the market for stocks in our industry, or the stock market in general, experiences a loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, financial condition or results of operations. If any of the foregoing occurs, it could cause our stock price to fall and may expose us to lawsuits that, even if unsuccessful, could be costly to defend and a distraction to management.

An investment in our common stock is not an insured deposit.

An investment in our common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in our common stock is inherently risky for the reasons described herein, and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire our common stock, you could lose some or all of your investment.

If equity research analysts do not publish research or reports about our business, or if they do publish such reports but issue unfavorable commentary or downgrade our common stock, the price and trading volume of our common stock could decline.

The trading market for our common stock could be affected by whether equity research analysts publish research or reports about us and our business. We cannot predict at this time whether any research analysts will publish research and reports on us and our common stock. If one or more equity analysts do cover us and our common stock and publish research reports about us, the price of our stock could decline if one or more securities analysts downgrade our stock or if those analysts issue other unfavorable commentary or cease publishing reports about us or our business.

If any of the analysts who elect to cover us downgrades our stock, our stock price could decline rapidly. If any of these analysts ceases coverage of us, we could lose visibility in the market, which in turn could cause our common stock price or trading volume to decline and our common stock to be less liquid.

Our recent dividend policy and/or share repurchase program may change without notice, and our future ability to pay dividends or repurchase or redeem shares is subject to restrictions.

We announced that our board of directors declared quarterly cash dividends in 2019 and most recently increased our quarterly cash dividend to $0.07 per share from $0.05 per share in January 2020. In addition, in January 2019, August 2019, February 2020, and September 2020, our board of directors approved stock repurchase programs that authorized the repurchase of up to 400,000, 475,000, 500,000, and 500,000 shares of common stock, respectively. As of December 31, 2020, we repurchased an aggregate of 1.6 million shares at an average price of $8.58 per share. However, we have no obligation to continue doing so and may change our dividend policy and/or share repurchase program at any time without notice to holders of our common stock. Holders of our common stock are only entitled to receive such cash dividends, as our board of directors, in its discretion, may declare out of funds legally available for such payments. Furthermore, consistent with our strategic plans, growth initiatives, capital availability, projected liquidity needs, and other factors, we have made, and will continue to make, capital management decisions and policies that could adversely affect the amount of dividends paid to holders of our common stock and the maintenance of share repurchase program.

We are a separate and distinct legal entity from our subsidiary, the Bank. We receive substantially all of our revenue from dividends from the Bank, which we use as the principal source of funds to pay our expenses. Various federal and/or state laws and regulations limit the amount of dividends that the Bank may pay us. Such limits are also tied to the earnings of our subsidiary. If the Bank does not receive regulatory approval or if the Bank's earnings are not sufficient to make dividend payments to us while maintaining adequate capital levels, our ability to pay our expenses and our business, financial condition or results of operations could be materially and adversely impacted.

As a bank holding company, we are subject to regulation by the Federal Reserve. The Federal Reserve has indicated that bank holding companies should carefully review their dividend policy in relation to the organization's overall asset quality, current and prospective earnings and level, composition and quality of capital. The guidance provides that we inform and consult with the Federal Reserve prior to declaring and paying a dividend that exceeds earnings for the period for which the dividend is being paid or that could result in an adverse change to our capital structure, including interest on our debt obligations. If required payments on our debt obligations are not made or are deferred, or dividends on any preferred stock we may issue are not paid, we will be prohibited from paying dividends on our common stock.

The Basel III capital rules also introduced a new capital conservation buffer on top of the minimum risk-based capital ratios. Failure to maintain a capital conservation buffer above certain levels will result in restrictions on the Bank's ability to make dividend payments, repurchases, redemptions or other capital distributions. These requirements, and any other new regulations or capital distribution constraints, could adversely affect the ability of the Bank to pay dividends to the Company and, in turn, affect our ability to pay dividends on our common stock.

We have limited the circumstances in which our directors will be liable for monetary damages.

We have included in our articles of incorporation a provision to eliminate the liability of directors for monetary damages to the maximum extent permitted by California law. The effect of this provision will be to reduce the situations in which we or our shareholders will be able to seek monetary damages from our directors. Our bylaws also have a provision providing for indemnification of our directors and executive officers and advancement of litigation expenses to the fullest extent permitted or required by California law, including circumstances in which indemnification is otherwise discretionary. Also, we have entered into agreements with our officers and directors in which we similarly agreed to provide indemnification that is otherwise discretionary.

Future equity issuances could result in dilution, which could cause our common stock price to decline.

We are generally not restricted from issuing additional shares of our common stock, up to the 50 million shares of voting common stock and 10 million shares of preferred stock authorized in our articles of incorporation (subject to Nasdaq shareholder approval rules), which in each case could be increased by a vote of a majority of our shares. We may issue additional shares of our common stock in the future pursuant to current or future equity compensation plans, upon conversions of preferred stock or debt, upon exercise of warrants or in connection with future acquisitions or financings. If we choose to raise capital by selling shares of our common stock for any reason, the issuance could have a dilutive effect on the holders of our common stock and could have a material negative effect on the market price of our common stock.

We may issue shares of preferred stock in the future, which could make it difficult for another company to acquire us or could otherwise adversely affect holders of our common stock, which could depress the price of our common stock.

Although there are currently no shares of our preferred stock issued and outstanding, our articles of incorporation authorize us to issue up to 10 million shares of one or more series of preferred stock. Our board of directors also has the power, without shareholder approval (subject to Nasdaq shareholder approval rules), to set the terms of any series of preferred stock that may be issued, including voting rights, dividend rights, preferences over our common stock with respect to dividends or in the event of a dissolution, liquidation or winding up and other terms. In the event that we issue preferred stock in the future that has preference over our common stock with respect to payment of dividends or upon our liquidation, dissolution or winding up, or if we issue preferred stock with voting rights that dilute the voting power of our common stock, the rights of the holders of our common stock or the market price of our common stock could be adversely affected. In addition, the ability of our board of directors to issue shares of preferred stock without any action on the part of our shareholders (subject to Nasdaq shareholder approval rules) may impede a takeover of us and prevent a transaction perceived to be favorable to our shareholders.

Provisions in our charter documents and California law may have an anti-takeover effect, and there are substantial regulatory limitations on changes of control of bank holding companies.

Our articles of incorporation and bylaws contain a number of provisions relating to corporate governance and rights of shareholders that might discourage future takeover attempts. As a result, shareholders who might desire to participate in such transactions may not have an opportunity to do so. In addition, these provisions will also render the removal of our board of directors or management more difficult. Such provisions include a requirement that shareholder approval for any action proposed by the Company must be obtained at a shareholders meeting and may not be obtained by written consent. Our bylaws provide that shareholders seeking to make nominations of candidates for election as directors, or to bring other business before an annual meeting of the shareholders, must provide timely notice of their intent in writing and follow specific procedural steps in order for nominees or shareholder proposals to be brought before an annual meeting.

Provisions of our charter documents and the California General Corporation Law, or the CGCL, could make it more difficult for a third party to acquire us, even if doing so would be perceived to be beneficial by our shareholders. Furthermore, with certain limited exceptions, federal regulations prohibit a person or company or a group of persons deemed to be “acting in concert” from, directly or indirectly, acquiring more than 10% (5% if the acquirer is a bank holding company) of any class of our voting stock or obtaining the ability to control in any manner the election of a majority of our directors or otherwise direct the management or policies of our company without prior notice or application to and the approval of the Federal Reserve. Accordingly, prospective investors need to be aware of and comply with these requirements, if applicable, in connection with any purchase of shares of our common stock. Moreover, the combination of these provisions effectively inhibits certain mergers or other business combinations, which, in turn, could adversely affect the market price of our common stock.

We are an "emerging growth company," and the reduced regulatory and reporting requirements applicable to emerging growth companies may make our common stock less attractive to investors.

We are an "emerging growth company," as described in the JOBS Act. For as long as we continue to be an emerging growth company, we may take advantage of reduced regulatory and reporting requirements that are otherwise generally applicable to public companies. These include, without limitation, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced financial reporting requirements, reduced disclosure obligations regarding executive compensation, and exemptions from the requirements of holding non-binding advisory votes on executive compensation and golden parachute payments. We cannot predict if investors will find our common stock less attractive because of our reliance on certain of these exemptions. If some investors find our common stock less attractive as a result, then there may be a less active trading market for our common stock, our stock price may be more volatile and the price of our common stock may decline.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Corporate Offices

Our corporate offices are located at 1000 Wilshire Blvd., Los Angeles, California 90017 on the fifth floor of a twenty-two story Class-A type office building. Our corporate office space consists of 15,239 square feet and is subject to a lease which expires in January 2025. The current monthly rent for the fifth floor is $30,327 and is subject to 3% annual increases until the lease expires. We have one five-year option to extend the term of the lease.

Branch Offices

Office	Location
Wilshire Office	1000 Wilshire Blvd., Los Angeles, CA 90017
Fashion District Office	747 East 10th Street, 3rd Floor Los Angeles, CA 90021
Aroma Office	3680 Wilshire Blvd. Los Angeles, CA 90010
Olympic Office	3030 West Olympic Blvd. Los Angeles, CA 90006
Western Office	550 South Western Avenue Los Angeles, CA 90020
Gardena Office	15435 South Western Avenue Gardena, CA 90249
Buena Park Office	5141 Beach Blvd. Buena Park, CA 90621
Santa Clara Office	2998 East El Camino Real Santa Clara, CA 95051
Carrollton Office	2540 Old Denton Road Carrollton, TX 75006

Wilshire Office. The Wilshire Office is located on the first floor at 1000 Wilshire Blvd, Los Angeles, California, where our corporate offices are also located. The branch consists of 11,115 square feet and is subject to a lease dated January 2014, which expires in January 2025. The current monthly rent is $22,120 and is subject to 3% annual increases until the lease expires. We have one five-year option to extend the term of the lease.

Fashion District Office. In July 2012, we leased approximately 2,189 square feet on the third floor in a four-story multi-tenant multi-use stand-alone building. The initial five-year lease expired in July 2017 and we renewed for another five years at a monthly rent of $5,621.

Aroma Office. In June 2013, we leased approximately 2,734 square feet on the ground floor in a five-story multi-tenant multi-use stand-alone building located in Koreatown, Los Angeles, California. The current monthly rent is $8,446 and is subject to annual increases equal to the Consumer Price Index (CPI), not to exceed 3%, until the lease expires in June 2023. We have reserved the right to extend the term of the lease for two additional periods of five years.

Olympic Office. In April 2014, we leased approximately 3,800 square feet in a one-story shopping strip building. The current monthly rent is $9,902, plus common area maintenance charges, until the end of 2019, and is subject to annual CPI adjustments thereafter until the lease expires in March 2024. We have reserved the right to extend the term of the lease for two additional periods of five years each.

Western Office. In June 2015, we leased a building with approximately 12,450 square feet. The current monthly rent is $46,255 and is subject to annual increases until the lease expires in May 2025. We have reserved the right to extend the term of the lease for two additional periods of five years each. The branch utilizes approximately 4,000 square feet and the remaining space, including the common area, is being used by two other departments.

Gardena Office. In September 2012, we leased approximately 1,520 square feet on the first floor in a two-story multi-tenant, multi-use, stand-alone building. The current monthly rent payment is $4,152 for the remainder of the lease, which expires in 2022.

Buena Park Office. In April 2013, we leased approximately 3,047 square feet in a newly built Class-A shopping strip building. The current monthly rent is $11,556 and is subject to annual increases based on CPI until the lease expires in March 2023. We have reserved the right to extend the term of the lease for two additional periods of five years each.

Santa Clara Office. In August 2017, we leased approximately 2,678 square feet in a building. The current monthly rent is $9,792 and is subject to annual increases of 3% until the lease expires in August 2027. We have reserved the right to extend the term of the lease for two additional periods of five years each.

Carrollton Office. In September 2018, we leased approximately 5,532 square feet in a commercial shopping center. The monthly rent is fixed at $16,135 beginning April 2019 until April 2024 and is subject to increase to $18,440 per month thereafter for the next five years until the lease expires in April 2029. We have reserved the right to extend the term of the lease for two additional periods of five years each.

Loan Production Offices

We maintain loan production offices in Atlanta, Georgia, Aurora, Colorado, and Lynnwood and Seattle, Washington.

Item 3. Legal Proceedings.

In the normal course of business, we are subject to legal proceedings or claims. There are currently no legal claims filed against the Company.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is traded on the NASDAQ Global Market under the symbol "OPBK."

The following table sets forth the quarterly range of high and low closing prices of our common stock.

Quarters Ending		High		Low
December 31, 2020	$	7.80	$	7.51
September 30, 2020	$	5.94	$	5.67
June 30, 2020	$	6.95	$	6.69
March 31, 2020	$	7.46	$	7.12
December 31, 2019	$	10.39	$	9.36
September 30, 2019	$	10.79	$	8.45
June 30, 2019	$	11.00	$	8.71
March 31, 2019	$	9.70	$	8.10

Holders

On December 31, 2020, we had approximately 1,098 record holders of our common stock.

Dividends

On January 23, 2020, the Company increased a quarterly cash dividend to $0.07 per share ($0.28 per share on an annualized basis and an annual yield of approximately 2.7% based on a common share price of $10.37 per share at December 31, 2019). We believe that the proposed level of dividends is reasonable based on our review of our overall risk profile, and an evaluation of our current and anticipated capital, asset quality, earnings, liquidity and sensitivity position. However, the amount of dividends to be paid will be subject to our capital requirements, our financial condition and results of operations, tax considerations, statutory and regulatory limitations, and general economic conditions. We cannot assure you that we will pay dividends in the future, or that any such dividends will not be reduced or eliminated in the future.

As a holding company, our ability to pay cash dividends is affected by the ability of our bank subsidiary, the Bank, to pay cash dividends. The ability of the Bank (and our ability) to pay cash dividends in the future and the amount of any such cash dividends is and could be in the future further influenced by bank regulatory requirements and approvals and capital guidelines.

For information on the statutory and regulatory limitations on the ability of the Company to pay dividends and on the Bank to pay dividends to the Company see "Item 1 — Business — Supervision and Regulation —The Company– Dividend Payments, Stock Redemptions, and Repurchases" and "–The Bank– Dividend Payments."

Securities Authorized for Issuance Under Equity Compensation Plans

For information on the Securities Authorized for Issuance under the Company's Equity Compensation Plan see "Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters – Securities Authorized for Issuance Under Equity Compensation Plans."

Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

On September 9, 2020, the Company announced a fourth stock repurchase program that authorized the Company to repurchase up to 500,000 shares of its common stock. As of February 28, 2021, the Company repurchased 202,000 shares of its common stock at an average price of $6.63 per share from the fourth stock repurchase program.

Since the announcement of the initial stock repurchase program in January 2019, the Company has repurchased a total of 1.57 million shares of its common stock at an average price of $8.64 per share through February 28, 2021.

The following table summarizes share repurchase activities of the second stock repurchase program during the fourth quarter of 2020.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Publicly Announced Program	Approximate Number of Shares that May Yet Be Purchased Under the Program
	(Dollars in thousands, except per share data)			
October 1, 2020 to October 31, 2020	31,698	$ 6.22	$ 31,698	—
November 1, 2020 to November 30, 2020	50,722	7.16	50,722	—
December 1, 2020 to December 31, 2020	57,150	7.40	57,150	302,314
Total	139,570	$ 7.04	$ 139,570	302,314

Item 6. Selected Financial Data.

The following table presents selected financial and other data for each of the years in the three-year period ended December 31, 2020. The information should be read in conjunction with the sections titled "Management's Discussion and Analysis of Financial Condition and Results of Operations", as well as our consolidated financial statements and the related notes included elsewhere in this report.

	As of or for the year ended December 31,		
	2020	2019	2018
	(dollars in thousands, except per share data)		
Income Statement Data:			
Interest income	$ 53,656	$ 58,779	$ 50,068
Interest expense	8,292	14,507	9,111
Net interest income	45,364	44,272	40,957
Provision for loan losses	5,961	1,102	1,267
Noninterest income	10,771	11,426	9,329
Noninterest expense	31,940	32,520	29,562
Income before taxes	18,234	22,076	19,457
Provision for income taxes	5,107	5,319	5,204
Net income	13,127	16,757	14,253
Per Share Data:			
Basic income per share	$ 0.85	$ 1.04	$ 0.92
Diluted income per share	$ 0.85	$ 1.03	$ 0.89
Book value per share (at period end)	$ 9.55	$ 8.95	$ 8.18
Shares of common stock outstanding	15,016,700	15,703,276	15,860,306
Weighted average diluted shares	15,223,888	15,935,314	15,551,063
Balance Sheet Data:			
Loans held for investment	$ 1,099,736	$ 990,138	$ 875,059
Loans held for sale	26,659	2,100	752
Allowance for loan losses	15,352	10,050	9,636
Total assets	1,366,826	1,179,520	1,044,186
Deposits	1,200,090	1,020,711	905,176
Shareholders' equity	143,366	140,576	129,787
Performance Ratios:			
Return on average assets	1.03%	1.51%	1.49%
Return on average equity	9.35	12.42	12.27
Yield on total loans	4.91	5.96	5.76
Yield on average earning assets	4.40	5.56	5.49
Cost of average interest bearing liabilities	1.18	2.13	1.59
Cost of deposits	0.75	1.52	1.09
Net interest margin	3.72	4.19	4.49
Efficiency ratio (1)	56.90	58.39	58.79
Asset Quality Data (at Period End):			
Net charge-offs to average loans held for investment	0.00%	0.07%	0.09%
Nonperforming assets to loans held for investment plus OREO	0.09	0.16	0.22
ALL to nonperforming loans	1,557.74	649.22	503.45
ALL to loans held for investment	1.40	1.02	1.10
Balance Sheet and Capital Ratios:			
Loans held for investment to deposits	91.64%	97.00%	96.67%
Noninterest-bearing deposits to deposits	43.56	22.38	31.50
Average equity to average total assets	11.06	12.19	12.11
Leverage ratio	10.55	12.14	12.88
Common equity tier 1 ratio	13.56	14.16	15.13
Tier 1 risk-based capital ratio	13.56	14.16	15.13
Total risk-based capital ratio	14.81	15.18	16.26

(1) Represents noninterest expense divided by the sum of net interest income plus noninterest income.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This discussion presents management's analysis of the financial condition and results of operations as of and for the years ended December 31, 2020, 2019 and 2018. This discussion should be read in conjunction with the "Selected Financial Data" and our consolidated financial statements and related notes included elsewhere in this report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Certain risks, uncertainties and other factors, including but not limited to those set forth under "Cautionary Note Regarding Forward-Looking Statements," "Risk Factors" and elsewhere in this report, may cause actual results to differ materially from those projected in the forward looking statements.

Overview

We are a bank holding company headquartered in Los Angeles, California. Our commercial community banking activities are operated through Open Bank, our banking subsidiary. We offer commercial banking services to small and medium-sized businesses, their owners and retail customers primarily in the Korean-American community.

Our results of operations depend primarily on our net interest income. We drive our income from interest received on our loan portfolio and the fee income we receive in connection with our deposits and the sale and service of SBA loans. Our major operating expenses are the interest we pay on deposits, the salaries and related benefits we pay our management and staff and the rent we pay on our leased properties. We rely primarily on locally-generated deposits, mostly from the Korean-American market within California, to fund our loan activities. We currently operate seven branches in Los Angeles County and Orange County, one branch in Santa Clara County, and one branch in Carrollton, Texas. We have four loan production offices in Atlanta, Georgia, Aurora, Colorado, and Lynnwood and Seattle, Washington.

As of December 31, 2020, we had total assets of $1.37 billion, gross loans of $1.10 billion, total deposits of $1.20 billion, and total consolidated shareholders' equity of $143.4 million. For the years ended December 31, 2020, 2019 and 2018, we recorded net income of $13.1 million, $16.8 million, and $14.3 million, respectively.

The following significant items are of note for the year ended December 31, 2020:

- Net income totaled $13.1 million or $0.85 per diluted common share for 2020, compared to $16.8 million or $1.03 per diluted common share for 2019
- Net interest income increased to $45.4 million, up 2.5% from $44.3 million for 2019
- Total assets of $1.37 billion, a 15.9% increase over 2020
- Gross loans of $1.10 billion, a 11.1% increase over 2020
- Total deposits of $1.20 billion, a 17.6% increase over 2020
- Shareholders' equity of $143.4 million, a 2.0% increase over 2020

COVID-19 AND GOVERNMENT RESPONSE

The COVID-19 pandemic has caused significant, unprecedented disruption around the world that has affected daily living and negatively impacted the local, state, national and global economies. The pandemic has resulted in temporary closures of many businesses and the institution of social distancing and shelter-in-place requirements in many states and communities. This has increased unemployment levels and caused extreme volatility in the financial markets. While COVID-19 has negatively impacted the economy, the CARES Act provided for financial stimulus and government lending programs at unprecedented levels. The benefits of these programs, as well as any potential additional stimulus, to effectively support businesses and consumers within the economy are uncertain.

The Company was able to react quickly to these changes because of the commitment and flexibility of its workforce coupled with a well-prepared business continuity plan. The Company has taken various steps to help our customers, employees, and communities, while maintaining safe and sound banking operations. The Company has been assisting customers with loan deferrals and the Paycheck Protection Program ("PPP") loans and has provided employees remote working environment while maintaining fully functioning operations in all areas. Since the pandemic has begun, the Company donated $1.0 million through the Open Stewardship Foundation to support small restaurants in the communities we serve. The Company also donated $10,000 in contribution from its Board of Directors and employees to two local non-profit organizations to support families who are most severely impacted by the pandemic.

Critical Accounting Policies and Estimates

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America (“GAAP”) and conform to general practices within the industry in which we operate. To prepare financial statements in conformity with GAAP, management makes estimates, assumptions and judgments based on available information. These estimates, assumptions and judgments affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions and judgments are based on information available as of the date of the financial statements and, as this information changes, actual results could differ from the estimates, assumptions and judgments reflected in the financial statement. In particular, management has identified several accounting policies that, due to the estimates, assumptions and judgments inherent in those policies, are critical in understanding our financial statements.

The following is a discussion of the critical accounting policies and significant estimates that require us to make complex and subjective judgments. Additional information about these policies can be found in the “Notes to Consolidated Financial Statements, Note 1. Summary of Significant Accounting Policies.”

Allowance for Loan Losses

The allowance for loan losses (“ALL”) is a valuation allowance for probable incurred credit losses. Loan losses are charged against the ALL when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the ALL. Management estimates the ALL balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the ALL may be made for specific loans, but the entire allowance is available for any loan that, in management’s judgment, should be charged off.

The ALL is maintained at a level that management believes is appropriate to provide for known and inherent incurred loan losses as of the date of the consolidated balance sheet and we have established methodologies for the determination of its adequacy. The methodologies are set forth in a formal policy and take into consideration the need for an overall general valuation allowance as well as specific allowances that are determined on an individual loan basis.

The evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. While management uses available information to recognize losses on loans, changes in economic or other conditions may necessitate revision of the estimate in future periods.

Results of Operations

Comparison of Results of Operations for the Years Ended December 31, 2020 and 2019

Net Income

We reported net income for the year ended December 31, 2020 of $13.1 million, compared to net income of $16.8 million for the year ended December 31, 2019. The decrease was primarily due to a $4.9 million increase in provision for loan losses, offset by a $1.1 million increase in net interest income.

	Years Ended December 31,		Increase	
	2020	2019	Amount	%
Interest income	$ 53,656	$ 58,779	$ (5,123)	(8.7)%
Interest expense	8,292	14,507	(6,215)	(42.8)%
Net interest income	45,364	44,272	1,092	2.5%
Provision for loan losses	5,961	1,102	4,859	440.9%
Noninterest income	10,771	11,426	(655)	(5.7)%
Noninterest expense	31,940	32,520	(580)	(1.8)%
Income before taxes	18,234	22,076	(3,842)	(17.4)%
Provision for income taxes	5,107	5,319	(212)	(4.0)%
Net income	$ 13,127	$ 16,757	$ (3,630)	(21.7)%

Net Interest Income

The management of interest income and expense is fundamental to our financial performance. Net interest income, the difference between interest income and interest expense, is the largest component of the Company's total revenue. Management closely monitors both total net interest income and the net interest margin (net interest income divided by average earning assets). We seek to maximize net interest income without exposing the Company to an excessive level of interest rate risk through our asset and liability policies. Interest rate risk is managed by monitoring the pricing, maturity and repricing options of all classes of interest-bearing assets and liabilities. Our net interest margin is also adversely impacted by the reversal of interest on nonaccrual loans and the reinvestment of loan payoffs into lower yielding investment securities and other short-term investments.

The following table presents, for the periods indicated, information about: (i) weighted average balances, the total dollar amount of interest income from interest-earning assets and the resultant average yields; (ii) average balances, the total dollar amount of interest expense on interest-bearing liabilities and the resultant average rates; (iii) net interest income; (iv) the interest rate spread; and (v) the net interest margin.

	Twelve Months Ended					
	December 31, 2020			December 31, 2019		
(Dollars in thousands)	Average Balance	Interest and Fees	Yield / Rate	Average Balance	Interest and Fees	Yield / Rate
Earning assets:						
Federal funds sold and other investments (1)	$ 91,247	$ 650	0.71%	$ 67,301	$ 1,706	2.54%
Securities available for sale	73,410	1,177	1.60	54,994	1,353	2.46
Total investments	164,657	1,827	1.11	122,295	3,059	2.50
Real estate loans	636,809	30,616	4.81	565,617	31,139	5.51
SBA loans	200,110	11,231	5.61	138,985	12,089	8.70
C & I loans	93,490	3,887	4.16	103,097	6,020	5.84
Home Mortgage loans	122,195	5,977	4.89	124,703	6,290	5.04
Consumer & other loans	2,102	118	5.61	2,843	182	6.40
Total loans (2)	1,054,706	51,829	4.91	935,245	55,720	5.96
Total earning assets	1,219,363	53,656	4.40	1,057,540	58,779	5.56
Noninterest-earning assets	49,827			48,924		
Total assets	$ 1,269,190			$ 1,106,464		
Interest-bearing liabilities:						
Money market deposits and others	$ 307,316	$ 2,174	0.71%	$ 278,384	$ 4,908	1.76%
Time deposits	391,667	6,118	1.56	401,840	9,599	2.39
Total interest-bearing deposits	698,983	8,292	1.19	680,224	14,507	2.13
Borrowings	5,505	-	0.00	32	-	0.09
Total interest-bearing liabilities	704,488	8,292	1.18	680,256	14,507	2.13
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	406,401			276,073		
Other noninterest-bearing liabilities	17,889			15,221		
Total noninterest-bearing liabilities	424,290			291,294		
Shareholders' equity	140,412			134,914		
Total liabilities and shareholders' equity	$ 1,269,190			$ 1,106,464		
Net interest income / interest rate spreads		$ 45,364	3.22%		$ 44,272	3.43%
Net interest margin			3.72%			4.19%
Cost of deposits			0.75%			1.52%
Cost of funds			0.75%			1.52%

(1) Includes, if applicable, income and average balances for Federal Home Loan Bank ("FHLB") and Pacific Coast Bankers Bank ("PCBB") stock, CRA qualified mutual fund, term federal funds, interest-earning time deposits and other miscellaneous interest-earning assets.

(2) Average loan balances include non-accrual loans and loans held for sale.

Increases and decreases in interest income and interest expense result from changes in average balances (volume) of interest-earning assets and interest-bearing liabilities, as well as changes in average interest rates. The following tables set forth the effects of changing rates and volumes on our net interest income during the period shown. Information is provided with respect to (i) effects on interest income attributable to changes in volume (change in volume multiplied by prior rate) and (ii) effects on interest income attributable to changes in rate (changes in rate multiplied by prior volume). Change applicable to both volume and rate have been allocated to volume and rate ratably.

	Twelve Months Ended December 31, 2020 over 2019		
	Change due to:		
(Dollars in thousands)	Volume	Rate	Interest Variance
Earning assets:			
Federal funds sold and other investments	$ 454	$ (1,510)	$ (1,056)
Securities available for sale	377	(553)	(176)
Total investments	831	(2,063)	(1,232)
Real estate loans	3,681	(4,204)	(523)
SBA loans	4,277	(5,135)	(858)
C & I loans	(522)	(1,611)	(2,133)
Home Mortgage loans	(126)	(187)	(313)
Consumer & other loans	(43)	(21)	(64)
Total loans	7,267	(11,158)	(3,891)
Total earning assets	8,098	(13,221)	(5,123)
Money market deposits and others	426	(3,160)	(2,734)
Time deposits	(236)	(3,245)	(3,481)
Total interest-bearing deposits	190	(6,405)	(6,215)
Borrowings	-	-	-
Total interest-bearing liabilities	190	(6,405)	(6,215)
Net interest income	$ 7,908	$ (6,816)	$ 1,092

Net interest income for the year ended December 31, 2020 was $45.4 million compared to $44.3 million for the year ended December 31, 2019, an increase of $1.1 million, or 2.5%. This increase was primarily due to a $6.2 million decrease in interest expense from a 95 basis point decrease in the average rate paid on interest-bearing liabilities, partially offset by a $5.1 million decrease in interest income from a 105 basis point decrease in the average yield on loans, and a 139 basis point decrease in the average yield on investments. The significant decreases in the average rates were primarily due to the Federal Reserve's cumulative market rate cuts of 150 basis points through three rate cuts in January and March.

Total interest income was $53.7 million in 2020, compared to $58.8 million in 2019, a decrease of $5.1 million, or 8.7%. This decrease was primarily due to a decrease in interest earned on our loan portfolio and a decrease in interest earned on federal funds sold.

Interest and fees on loans was $51.8 million in 2020, compared to $55.7 million in 2019, a decrease of $3.9 million, or 7.0%. This decrease in interest income on loans was primarily due to a 105 basis point decrease in the average yield on loans, partially offset by a $119.5 million, or 12.8%, increase in the average balance of loans outstanding.

Interest income on total investments was $1.8 million in 2020, compared to $3.1 million in 2019. Interest income on the securities portfolio decreased $176,000, or 13.0%, to $1.2 million in 2020, compared to $1.4 million in 2019. The decrease in interest income on the securities portfolio was primarily due to an 86 basis point decrease in the average yield on the securities portfolio, offset by 33.5% increase in the average balance of securities available for sale held by the Company. Interest income on federal funds sold and other investments decreased $1.1 million, or 61.9%, to $650,000 in 2020 from $1.7 million in 2019, due to a 183 basis point decrease in the average yield on the federal funds sold and other investments, offset by 35.6% increase in the average balance of federal funds sold and other investments held by the Company.

Total interest expense was $8.3 million in 2020, compared to $14.5 million in 2019, a decrease of $6.2 million, or 42.8%. The decrease was primarily due to decreases in interest expense on deposits as result of the downward adjustments of the Company's rates paid on interest-bearing deposits in response to the rate decreases by the Federal Reserve. The average balance of interest-bearing liabilities increased $24.2 million to $704.5 million at December 31, 2020 from $680.3 million at December 31, 2019.

Net interest margins for the years ended December 31, 2020 and 2019 were 3.72% and 4.19%, respectively.

Provision for Loan Losses

Credit risk is inherent in the business of making loans. We establish an allowance for loan losses through charges to earnings, which are shown in the statements of operations as the provision for loan losses. Specifically identifiable and quantifiable known losses are promptly charged off against the allowance. The provision for loan losses is determined by conducting a quarterly evaluation of the adequacy of our allowance for loan losses and charging the shortfall or excess, if any, to the current quarter's expense. This has the effect of creating variability in the amount and frequency of charges to earnings. The provision for loan losses and level of allowance for each period are dependent upon many factors, including loan growth, net charge-offs, changes in the composition of the loan portfolio, delinquencies, management's assessment of the quality of the loan portfolio, the valuation of problem loans and the general economic conditions in our market area.

The provision for loan losses was $6.0 million for the year ended December 31, 2020, compared to $1.1 million for the year ended December 31, 2019. Management evaluated the qualitative and quantitative factors on all loan types to reflect the COVID-19 pandemic's prolonged potential adverse impacts on national, state, and local economic and business conditions. The changes in qualitative factors accounted for $4.3 million, or 72%, and the changes in quantitative factors, which included a provision of $643,000 for accrued interest receivables on deferred loans, accounted for $1.6 million, or 27% of the provision for loan losses for the year ended December 31, 2020. Our gross loans were $1.10 billion at 2020, compared to $990.1 million at 2019, an increase of $109.6 million, or 11.1%.

The allowance for loan losses as a percentage of loans held for investment was 1.40% at December 31, 2020 and 1.02% at December 31, 2019.

Noninterest Income

While interest income remains the largest single component of total revenues, noninterest income is also an important component. A portion of our noninterest income is associated with SBA lending activity, consisting of gains on the sale of loans sold in the secondary market and servicing income from loans sold with servicing retained. Other sources of noninterest income include loan servicing fees, service charges and fees, and gains on the sale of securities.

Noninterest income for the year ended December 31, 2020 was $10.8 million, a decrease of $655,000, or 5.7%, compared to $11.4 million for the year ended December 31, 2019.

The following table sets forth the various components of our noninterest income for the years ended December 31, 2020 and 2019:

	Year Ended December 31		
(Dollars in thousands)	**2020**	**2019**	**Increase**
Noninterest income:			
Service charges on deposit accounts	$ 1,132	$ 1,695	$ (563)
Loan servicing fees, net of amortization	1,856	1,186	670
Gain on sale of loans	6,092	5,905	187
Other income and fees	1,691	2,640	(949)
Total noninterest income	$ 10,771	$ 11,426	$ (655)

Income from service charges on deposit accounts was $1.1 million for 2020, compared to $1.7 million, a decrease of $563,000, or 33.2%. This decrease was primarily due to lower overdrafts in the year ended December 31, 2020, compared to the same period in 2019, reflecting higher balances and lower transaction activities on deposit accounts amid the COVID-19 pandemic.

Total gain on sale of loans was $6.1 million in the year ended December 31, 2020, compared to $5.9 million for the same period of 2019, an increase of $187,000 or 3.2%.

Gain on sale of SBA loans totaled $5.9 million in the year ended December 31, 2020, compared to $5.8 million for the same period of 2019. We sold $85.0 million of SBA loans with an average premium of 8.82% in the year ended December 31, 2020, compared to the sale of $85.0 million of SBA loans with an average premium of 8.43% in the same period of 2019. We originated $204.5 million of SBA loans, including $66.3 million of SBA PPP loans, in 2020, compared to $110.5 million of SBA loans in 2019. Gain on sale of other loans for both periods were immaterial.

Loan servicing income, net of amortization, increased by $670,000 to $1.9 million in 2020, compared to $1.2 million in 2019. The increase in loan servicing income was due to a $323,000 increase in servicing fees and a $347,000 decrease in servicing asset amortization expense. Our total SBA loan servicing portfolio was $388.8 million as of December 31, 2020, compared to $347.8 million as of December 31, 2019.

The servicing assets that result from the sales of SBA loans with servicing retained are amortized over the expected term of the loans using a method approximating the interest method. Servicing income generally declines as the respective loans are repaid.

Other income and fees for 2020 were $1.7 million, compared to $2.6 million for 2019, a decrease of $949,000, or 35.9%. The decrease was primarily attributable to a one-time gain on company owned life insurance of $1.2 million in the year ended December 31, 2019, partially offset by a gain of $213,000 from a sale of other property in the year ended December 31, 2020. The Company sold a property that has been used for the Company’s internal use with a gain of $213,000 during the fourth quarter of 2020.

Noninterest Expense

Noninterest expense for the year ended December 31, 2020 was $31.9 million, compared to $32.5 million for the year ended December 31, 2019, a decrease of $580,000, or 1.8%. The following table sets forth the major components of our noninterest expense for the years ended December 31, 2020 and 2019:

	Year Ended December 31		
(Dollars in thousands)	**2020**	**2019**	**Increase (decrease)**
Noninterest expense:			
Salaries and employee benefits	$ 20,041	$ 20,267	$ (226)
Occupancy and equipment	4,974	4,648	326
Data processing and communication	1,682	1,530	152
Professional fees	1,101	980	121
FDIC insurance and regulatory assessments	449	259	190
Promotion and advertising	467	806	(339)
Directors' fees and stock-based compensation	700	908	(208)
Foundation donation and other contributions	1,335	1,586	(251)
Other expenses	1,191	1,536	(345)
Total noninterest expense	$ 31,940	$ 32,520	$ (580)

Salaries and employee benefits expense for the year ended December 31, 2020 was $20.0 million, compared to $20.3 million for the year ended December 31, 2019, a decrease of $226,000, or 1.1%. This decrease was attributable to an increase in deferred loan origination cost, partially offset by an increase in the number of employees to support continued growth, annual salary adjustments and increased benefits costs. The increase in deferred loan costs is primarily attributable to the origination of 1,300 new loans, including 979 SBA PPP Loans, in the year ended December 31, 2020, compared to 345 new loans in the year ended December 31, 2019. The average number of full-time equivalent employees was 171.3 in 2020 compared to 166.1 in 2019.

Occupancy and equipment expense for 2020 was $5.0 million, compared to $4.6 million for 2019, an increase of $326,000, or 7.0%. This increase was primarily due the annual increase of rent under our office leases and a new branch opened in the second quarter of 2019.

Data processing and communication expense for 2020 was $1.7 million, compared to $1.5 million for 2019, an increase of $152,000, or 9.9%. This increase was primarily due to supporting increased online transaction activities and supporting increased users on authentication system along with an increase in number of employees in 2020.

Professional fees for 2020 were $1.1 million, compared to $980,000 for 2019, an increase of $121,000, or 12.3%. The increase was primarily due to an increase in internal audit costs in line with the Company’s growth.

FDIC insurance and regulatory assessment expense for 2020 was $449,000, compared to $259,000 for 2019, an increase of $190,000 or 73.4%. The FDIC insurance and regulatory assessments for 2019 was lower due to the small bank assessment credits that was applied to offset the FDIC assessments for the second half of 2019.

Directors’ fees and expenses for 2020 were $700,000, compared to $908,000 for 2019, a decrease of $208,000 or 22.9%. Directors’ fees and expenses include a monthly retainer fee, reimbursement for travel and other expenses, and stock-based expenses relating to equity awards granted to our directors in prior years under our equity plans. The decrease was primarily due to a decrease in stock-based expenses resulting from the full vesting of the restricted stock units in July 2020. Directors’ stock-based expenses for 2020 and 2019 were $252,000 and $431,000, respectively.

Our aggregate donations to the Foundation and other charitable and community contributions for 2020 were $1.3 million, compared to $1.6 million for 2019, a decrease of $251,000, or 15.8%. The decrease was due to decreased donation accruals for Open Stewardship Foundation, which is directly proportionate to our after-tax net income. On an annual basis, we donate 10% of our consolidated net income after taxes to the Foundation.

Other expenses for 2020 were $1.2 million compared to $1.5 million for 2019, a decrease of $345,000, or 22.5%. The decrease was primarily due to Company’s proactive management of overhead expenses amid the COVID-19 pandemic.

Income Tax Expense

Income tax expense was $5.1 million in 2020, compared to $5.3 million in 2019. Effective tax rates were 28.0% and 24.1% in 2020 and 2019, respectively. The increase in the effective tax rate was primarily attributable to the less permanent difference in 2020 compared to 2019. These differences are substantially attributable to one-time proceeds from company owned life insurance received in 2019 and realizing a lower amount of tax benefits resulting from the exercise of non-qualified stock options in 2020 compared to 2019.

Some items of income and expense are recognized in different years for tax purposes than when applying GAAP, leading to timing differences between our actual tax liability and the amount accrued for liability based on book income. These temporary differences comprise the “deferred” portion of our tax expense or benefit, which accumulates on our books as a deferred tax asset or deferred tax liability, until such time as they reverse.

Realization of deferred tax assets is primarily dependent upon us generating sufficient future taxable income to obtain benefit from the reversal of net deductible temporary differences, along with the utilization of tax credit carry forwards and the net operating loss carry forwards for Federal and California state income tax purposes. The amount of deferred tax assets considered realizable is subject to adjustment in future periods based on estimates of future taxable income. Under GAAP a valuation allowance is required to be recognized if it is "more likely than not" that the deferred tax assets will not be realized. The determination of the realizability of the deferred tax assets is highly subjective and dependent upon judgment concerning management's evaluation of both positive and negative evidence, including forecasts of future income, cumulative losses, applicable tax planning strategies, and assessments of current and future economic and business conditions.

We recognized net deferred tax assets of $5.2 million and $3.2 million at December 31, 2020, and December 31, 2019, respectively.

After consideration of the matters in the preceding paragraph, we have determined that it is more likely than not that net deferred tax assets at December 31, 2020 and December 31, 2019 will be fully realized in future years.

Comparison of Results of Operations for the Years Ended December 31, 2019 and 2018

Net Income

We reported net income for the year ended December 31, 2019 of $16.8 million compared to net income of $14.3 million for the year ended December 31, 2018. The increase was due to a $3.3 million increase in net interest income and a $2.1 million increase in noninterest income, offset by a $3.0 million increase in noninterest expense.

	Years Ended December 31,		Increase	
	2019	2018	Amount	%
Interest income	$ 58,779	$ 50,068	$ 8,711	17.4%
Interest expense	14,507	9,111	5,396	59.2%
Net interest income	44,272	40,957	3,315	8.1%
Provision for loan losses	1,102	1,267	(165)	(13.0)%
Noninterest income	11,426	9,329	2,097	22.5%
Noninterest expense	32,520	29,562	2,958	10.0%
Income before taxes	22,076	19,457	2,619	13.5%
Provision for income taxes	5,319	5,204	115	2.2%
Net income	$ 16,757	$ 14,253	$ 2,504	17.6%

Net Interest Income

The following table presents, for the periods indicated, information about our: (i) weighted average balances, the total dollar amount of interest income from interest-earning assets and the resultant average yields; (ii) average balances, the total dollar amount of interest expense on interest-bearing liabilities and the resultant average rates; (iii) net interest income; (iv) the interest rate spread; and (v) the net interest margin.

	Twelve Months Ended					
	December 31, 2019			December 31, 2018		
(Dollars in thousands)	**Average Balance**	**Interest and Fees**	**Yield / Rate**	**Average Balance**	**Interest and Fees**	**Yield / Rate**
Earning assets:						
Federal funds sold and other investments (1)	$ 67,301	$ 1,706	2.54%	$ 33,110	$ 975	2.95%
Securities available for sale	54,994	1,353	2.46	44,046	985	2.24
Total investments	122,295	3,059	2.50	77,156	1,960	2.54
Real estate loans	565,617	31,139	5.51	472,062	24,784	5.25
SBA loans	138,985	12,089	8.70	140,381	11,404	8.12
C & I loans	103,097	6,020	5.84	104,706	5,862	5.60
Home Mortgage loans	124,703	6,290	5.04	114,630	5,864	5.12
Consumer & other loans	2,843	182	6.40	3,358	194	5.78
Total loans (2)	935,245	55,720	5.96	835,137	48,108	5.76
Total earning assets	1,057,540	58,779	5.56	912,293	50,068	5.49
Noninterest-earning assets	48,924			47,260		
Total assets	$ 1,106,464			$ 959,553		
Interest-bearing liabilities:						
Money market deposits and others	$ 278,384	$ 4,908	1.76%	$ 256,889	$ 3,523	1.36%
Time deposits	401,840	9,599	2.39	304,407	5,441	1.79
Total interest-bearing deposits	680,224	14,507	2.13	561,296	8,964	1.59
Borrowings	32	-	0.09	8,736	147	1.67
Total interest-bearing liabilities	680,256	14,507	2.13	570,032	9,111	1.59
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	276,073			260,697		
Other noninterest-bearing liabilities	15,221			9,622		
Total noninterest-bearing liabilities	291,294			270,319		
Shareholders' equity	134,914			116,202		
Total liabilities and shareholders' equity	$ 1,106,464			$ 956,553		
Net interest income / interest rate spreads		$ 44,272	3.43%		$ 40,957	3.90%
Net interest margin			4.19%			4.49%
Cost of deposits			1.52%			1.09%
Cost of funds			1.52%			1.09%

(1) Includes, if applicable, income and average balances for Federal Home Loan Bank ("FHLB") and Pacific Coast Bankers Bank ("PCBB") stock, CRA qualified mutual fund, term federal funds, interest-earning time deposits and other miscellaneous interest-earning assets.

(2) Average loan balances include non-accrual loans and loans held for sale.

Increases and decreases in interest income and interest expense result from changes in average balances (volume) of interest-earning assets and interest-bearing liabilities, as well as changes in average interest rates. The following tables set forth the effects of changing rates and volumes on our net interest income during the period shown. Information is provided with respect to (i) effects on interest income attributable to changes in volume (change in volume multiplied by prior rate) and (ii) effects on interest income attributable to changes in rate (changes in rate multiplied by prior volume). Change applicable to both volume and rate have been allocated to volume and rate ratably.

	Twelve Months Ended December 31		
	2019 over 2018		
	Change due to:		
(Dollars in thousands)	**Volume**	**Rate**	**Interest Variance**
Earning assets:			
Federal funds sold and other investments	$ 883	$ (152)	$ 731
Securities available for sale	260	108	368
Total investments	1,143	(44)	1,099
Real estate loans	5,084	1,271	6,355
SBA loans	(115)	800	685
C & I loans	(91)	249	158
Home Mortgage loans	517	(91)	426
Consumer & other loans	(32)	20	(12)
Total loans	5,363	2,249	7,612
Total earning assets	6,506	2,205	8,711
Money market deposits and others	280	1,105	1,385
Time deposits	2,031	2,127	4,158
Total interest-bearing deposits	2,311	3,232	5,543
Borrowings	(73)	(74)	(147)
Total interest-bearing liabilities	2,238	3,158	5,396
Net interest income	$ 4,268	$ (953)	$ 3,315

Net interest income for the year ended December 31, 2019 was $44.3 million compared to $41.0 million for the year ended December 31, 2018, an increase of $3.3 million, or 8.1%. This increase was primarily due to a 15.9% increase in the average balance of interest-earning assets, coupled with a 20 basis point improvement in the average yield on loans, offset by a 4 basis point decrease in the average yield on securities and a 54 basis point increase in the average rate paid on interest-bearing liabilities. During the fourth quarter of 2019, the Federal Reserve's cumulative market rate decreased 75 basis points through three rate cuts in each of August, September, and October 2019. The increase in the average yield on loan was primarily due to a greater volume of new loan origination with higher yield during the first 7 months in 2019 than new loan origination during the last 5 months of 2019. The Company originated new loans of $231.0 million for the first 7 months in 2019 and $162.2 million for the last 5 months of 2019.

Total interest income was $58.8 million in 2019, compared to $50.1 million in 2018, an increase of $8.7 million, or 17.4%. This increase was primarily due to an increase in interest earned on our loan portfolio. Interest and fees on loans was $55.7 million in 2019, compared to $48.1 million in 2018, an increase of $7.6 million, or 15.8%. This increase in interest income on loans was primarily due to a 12.0% increase in the average balance of loans outstanding and a 20 basis point improvement in the average yield on loans.

Interest income on total investments was $3.1 million in 2019, compared to $2.0 million in 2018. Interest income on the securities portfolio increased $368,000, or 37.4%, to $1.4 million in 2019, compared to $985.000 in 2018. The increase in interest income on the securities portfolio was primarily due to a 24.9% increase in the average balance of securities available for sale held by the Company and a 22 basis point increase in the average yield on the securities portfolio. Interest income on federal funds sold and other investments increased $731,000, or 75.0%, to $1.7 million in 2019 from $975,000 in 2018, due to a 103.3% increase in the average balance of federal funds sold held by the Company, but offset by a 41 basis point decrease in the average yield on the federal funds sold and other investments. A CRA qualified mutual fund was reclassified to other investment following the adoption of ASU 2016-01 effective January 2018.

Total interest expense was $14.5 million in 2019, compared to $9.1 million in 2018, an increase of $5.4 million, or 59.2%. The increase was primarily due to increases in interest expense on deposits. Interest expense on deposits was $14.5 million in 2019, compared to $9.0 million in 2018, an increase of $5.5 million, or 61.8%. This increase was primarily due to a 20.5% increase in the average balance of interest-bearing deposits, coupled with a 54 basis point increase in the average interest rate paid.

Net interest margins for the years ended December 31, 2019 and 2018 were 4.19% and 4.49%, respectively.

Provision for Loan Losses

The provision for loan losses was $1.10 million for the year ended December 31, 2019, compared to $1.27 million for the year ended December 31, 2018. The decrease in the provision for loan losses was primarily due to a decrease to a specific reserve for a SBA commercial loan, upon the confirmation of the SBA government guarantee, and a decrease in reserve for a commercial loan that was fully charged off, and such decrease was partially offset by an increase in reserve from an increase in our loan portfolio. Our gross loans were $990.1 million at 2019, compared to $875.1 million at 2018, an increase of $115.1 million, or 13.2%.

The allowance for loan losses as a percentage of loans held for investment was 1.02% at December 31, 2019 and 1.10% at December 31, 2018.

Noninterest Income

Noninterest income for the year ended December 31, 2019 was $11.4 million, an increase of $2.1 million, or 22.5%, compared to $9.3 million for the year ended December 31, 2018.

The following table sets forth the various components of our noninterest income for the years ended December 31, 2019 and 2018:

	Year Ended December 31		
(Dollars in thousands)	**2019**	**2018**	**Increase (decrease)**
Noninterest income:			
Service charges on deposit accounts	$ 1,695	$ 1,897	$ (202)
Loan servicing fees, net of amortization	1,186	1,078	108
Gain on sale of loans	5,905	4,880	1,025
Other income and fees	2,640	1,474	1,166
Total noninterest income	$ 11,426	$ 9,329	$ 2,097

Total gain on sale of loans was $5.9 million in the year ended December 31, 2019, compared to $4.9 million for the same period of 2018, an increase of $1.0 million or 21.0%.

Gain on sale of SBA loans totaled $5.8 million in the year ended December 31, 2019, compared to $4.8 million for the same period of 2018. We sold $85.0 million of SBA loans with an average premium of 8.43% in the year ended December 31, 2019, compared to the sale of $85.7 million of SBA loans with an average premium of 7.19% in the same period of 2018. We originated $110.5 million of SBA loans in 2019, compared to $99.4 million in 2018. Gain on sale of other loans for both periods were immaterial.

Loan servicing income, net of amortization, increased by $108,000 to $1.2 million in 2019, compared to $1.1 million in 2018. The increase in loan servicing income was due to a $150,000 increase in servicing fees, partially offset by a $43,000 increase in servicing asset amortization expense. Our total SBA loan servicing portfolio was $347.8 million as of December 31, 2019, compared to $328.5 million as of December 31, 2018. The increase in the servicing portfolio reflects the sales of SBA loans in 2019.

Other income and fees for 2019 were $2.6 million, compared to $1.5 million for 2018, an increase of $1.2 million, or 79.1%. The increase was primarily attributable to a one-time gain on company owned life insurance of $1.2 million.

Noninterest Expense

Noninterest expense for the year ended December 31, 2019 was $32.5 million, compared to $29.6 million for the year ended December 31, 2018, an increase of $3.0 million, or 10.0%. The following table sets forth the major components of our noninterest expense for the years ended December 31, 2019 and 2018:

	Year Ended December 31		
(Dollars in thousands)	**2019**	**2018**	**Increase (decrease)**
Noninterest expense:			
Salaries and employee benefits	$ 20,267	$ 18,195	$ 2,072
Occupancy and equipment	4,648	4,111	537
Data processing and communication	1,530	1,231	299
Professional fees	980	921	59
FDIC insurance and regulatory assessments	259	405	(146)
Promotion and advertising	806	814	(8)
Directors' fees and stock-based compensation	908	851	57
Foundation donation and other contributions	1,586	1,441	145
Other expenses	1,536	1,593	(57)
Total noninterest expense	$ 32,520	$ 29,562	$ 2,958

Salaries and employee benefits expense for the year ended December 31, 2019 was $20.3 million, compared to $18.2 million for the year ended December 31, 2018, an increase of $2.1 million, or 11.4%. This increase was attributable to an increase in the number of employees to support continued growth, annual salary adjustments and increased benefits costs. The average number of full-time equivalent employees was 166.1 in 2019 compared to 143.1 in 2018.

Occupancy and equipment expense for 2019 was $4.6 million, compared to $4.1 million for 2018, an increase of $537,000, or 13.1%. This increase was primarily due to the opening of our new branch in Carrollton, Texas, which opened in the second quarter of 2019, and the annual increase of rent under our other offices leases.

Data processing and communication expense for 2019 was $1.5 million, compared to $1.2 million for 2018, an increase of $299,000, or 24.3%. This increase was primarily due to implementing various data processing system projects in order to support continued growth in 2019.

Professional fees for 2019 were $980,000, compared to $921,000 for 2018, an increase of $59,000, or 6.4%. The increase was due to an increase in financial reporting and auditing costs as additional regulatory reporting requirements became applicable in 2019.

FDIC insurance and regulatory assessment expense for 2019 was $259,000, compared to $405,000 for 2018, a decrease of $146,000 or 36.0%. The decrease was due to the small bank assessment credits that was applied to offset the FDIC assessments starting June 30, 2019.

Directors’ fees and expenses for 2019 were $908,000, compared to $851,000 for 2018, an increase of $57,000 or 6.7%. Directors’ fees and expenses include a monthly retainer fee, reimbursement for travel and other expenses, and stock-based expenses relating to equity awards granted in prior years under our equity plans to our directors. Directors’ fees and expenses (not including stock-based expenses) for 2019 was $477,000 compared to $420,000 in 2018, an increase of $57,000, or 13.5%. The increase was due to an annual base increase in directors’ monthly retainer fees in 2019. Directors’ stock-based expenses for 2019 and 2018 remained unchanged and were $431,000 in each period.

Our aggregate donations to the Foundation and other charitable and community contributions for 2019 were $1.6 million, compared to $1.4 million for 2018, an increase of $145,000, or 10.1%. The increase was due to increased donation accruals for Open Stewardship Foundation, which is directly proportionate to the growth in our after-tax net income.

Other expenses for 2019 were $1.5 million compared to $1.6 million for 2018, a decrease of $57,000, or 3.6%. The decrease was primarily due to decreased loan related expenses.

Income Tax Expense

Income tax expense was $5.3 million in 2019, compared to $5.2 million in 2018. Effective tax rates were 24.1% and 26.8% in 2019 and 2018, respectively. The decrease in the effective tax rate was primarily attributable to the greater permanent difference in 2019 compared to 2018. These differences are substantially attributable to one-time proceeds from company owned life insurance received in 2019.

We recognized net deferred tax assets of $3.2 million and $3.7 million at December 31, 2019, and December 31, 2018, respectively. We determined that it is more likely than not that net deferred tax assets at December 31, 2019 and December 31, 2018 would be fully realized in future years.

Financial Condition of the Company for Year Ended December 31, 2020

Total assets increased $187.3 million, or 15.9%, to $1.37 billion at December 31, 2020, as compared to $1.18 billion at December 31, 2019. This increase primarily resulted from an increase of $109.6 million, or 11.1%, in gross loans and an increase of $35.2 million, or 62.3%, in investment portfolio. We funded our asset growth primarily with an increase of $179.4 million in deposits in 2020.

Investment portfolio

The securities portfolio is the second largest component of our interest earning assets, and the structure and composition of this portfolio is important to an analysis of our financial condition. The portfolio serves the following purposes: (i) it provides a source of pledged assets for securing certain deposits and borrowed funds, as may be required by law or by specific agreement with a depositor or lender; (ii) it provides liquidity to even out cash flows from the loan and deposit activities of customers; (iii) it can be used as an interest rate risk management tool, because it provides a large base of assets, the maturity and interest rate characteristics of which can be changed more readily than the loan portfolio to better match changes in the deposit base and our other funding sources; and (iv) it is an alternative interest-earning use of funds when loan demand is weak or when deposits grow more rapidly than loans.

We classify our securities as either available-for-sale or held-to-maturity at the time of purchase. Accounting guidance requires available-for-sale securities to be marked to fair value with an offset to accumulated other comprehensive income (loss), a component of shareholders' equity. Monthly adjustments are made to reflect changes in the fair value of our available-for-sale securities.

All of the securities in our investment portfolio were classified as available-for-sale at December 31, 2020. There were no held-to-maturity or trading securities in our investment portfolio at December 31, 2020. All available-for-sale securities are carried at fair value. Securities available-for-sale consist primarily of US government-sponsored agency securities, home mortgage-backed securities and collateralized mortgage obligations.

Securities available-for-sale increased $35.2 million, or 62.3%, to $91.8 million at December 31, 2020 from $56.5 million at December 31, 2019. Securities available-for-sale increased $1.2 million, or 2.2%, to $56.53 million at December 31, 2019 from $55.3 million at December 31, 2018. No issuer of the available-for-sale securities, other than FNMA and FHLMC, comprised more than ten percent of our shareholders' equity as of December 31, 2020, 2019, or 2018.

The following table summarizes the fair value of the available-for-sale securities portfolio as of the dates presented.

(Dollars in thousands)	December 31, 2020 Amortized Cost	December 31, 2020 Fair Value	December 31, 2020 Unrealized Gain/(Loss)	December 31, 2019 Amortized Cost	December 31, 2019 Fair Value	December 31, 2019 Unrealized Gain/(Loss)	December 31, 2018 Amortized Cost	December 31, 2018 Fair Value	December 31, 2018 Unrealized Gain/(Loss)
Available for sale									
U.S. Government agencies	$ 1,000	$ 1,005	$ 5	$ 5,000	$ 5,001	$ 1	$ 6,994	$ 6,906	$ (88)
Mortgage-backed securities - residential	19,281	19,704	423	15,559	15,641	82	14,465	14,129	(336)
Collateralized mortgage obligations	70,318	71,082	764	35,723	35,907	184	34,655	34,301	(354)
Total available for sale	$ 90,599	$ 91,791	$ 1,192	$ 56,282	$ 56,549	$ 267	$ 56,114	$ 55,336	$ (778)

Certain securities have fair values less than amortized cost and, therefore, contain unrealized losses. At December 31, 2020, we evaluated the securities which had an unrealized loss for other than temporary impairment ("OTTI") and determined all decline in value to be temporary. We anticipate full recovery of amortized cost with respect to these securities by maturity, or sooner in the event of a more favorable market interest rate environment. We do not intend to sell these securities and it is not more likely than not that we will be required to sell them before recovery of the amortized cost basis, which may be at maturity.

The following table sets forth certain information regarding contractual maturities and the weighted average yields of our investment securities as of the dates presented. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	As of December 31, 2020							
	Due in One Year or Less		Due after One Year Through Five Years		Due after Five Years Through Ten Years		Due after Ten Years	
(Dollars in thousands)	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
Available for sale								
U.S. Government agencies	$ 1,000	1.75%	$ —	—%	$ —	—%	$ —	—%
Mortgage-backed securities - residential	—	—%	329	1.94%	5,303	1.83%	13,649	1.45%
Collateralized mortgage obligations	—	—%	—	—%	780	1.73%	69,538	1.01%
Total available for sale	$ 1,000	1.75%	$ 329	1.94%	$ 6,083	1.82%	$ 83,187	1.08%

We have not used interest rate swaps or other derivative instruments to hedge fixed rate loans or securities to otherwise mitigate interest rate risk.

Loans

Our loans represent the largest portion of our earning assets, substantially greater than the securities portfolio or any other asset category, and the quality and diversification of the loan portfolio is an important consideration when reviewing our financial condition.

At December 31, 2020, gross loans including deferred costs totaled $1.10 billion, compared to $990.1 million at December 31, 2019 and $875.1 million at December 31, 2018.

The loan distribution table that follows sets forth our gross loans outstanding, and the percentage distribution in each category as of the dates indicated:

(Dollars in thousands)	December 31, 2020 Amount	December 31, 2020 % of Total	December 31, 2019 Amount	December 31, 2019 % of Total	December 31, 2018 Amount	December 31, 2018 % of Total
Real estate:						
Commercial real estate	$ 651,684	59%	$ 630,668	64%	$ 503,834	58%
SBA loan - real estate	136,224	12%	122,373	12%	117,834	13%
Total real estate	787,908	71%	753,041	76%	621,668	71%
SBA loan - non-real estate	75,151	7%	9,895	1%	9,541	1%
Commercial and industrial	107,307	10%	103,852	10%	113,975	13%
Home mortgage	128,212	12%	120,686	12%	127,298	15%
Consumer	1,158	<1%	2,664	<1%	2,577	<1%
Gross loans	1,099,736	100%	990,138	100%	875,059	100%
Allowance for loan losses	(15,352)		(10,050)		(9,636)	
Net loans	$ 1,084,384		$ 980,088		$ 865,423	

Gross loans increased $109.6 million, or 11.1%, to $1.10 billion at December 31, 2020, compared to $990.1 million as of December 31, 2019. Gross loans increased $115.1 million, or 13.2%, to $990.1 million at December 31, 2019, compared to $875.1 million as of December 31, 2018. The increases in our gross loans in 2020 resulted from originations of $66.3 million of SBA PPP loans and additional organic growth in commercial real estate loans and SBA loans.

The following tables presents the maturity distribution of our loans at December 31, 2020 and 2019. The table shows the distribution of such loans between those loans with predetermined (fixed) interest rates and those with variable (floating) interest rates.

	As of December 31, 2020						
	Due in One Year or Less		Due after One Year Through Five Years		Due after Five Years		
(Dollars in thousands)	Fixed Rate	Adjustable Rate	Fixed Rate	Adjustable Rate	Fixed Rate	Adjustable Rate	Total
Real estate:							
Commercial real estate	$ 58,101	$ 44,439	$ 293,045	$ 155,303	$ 74,302	$ 26,494	$ 651,684
SBA loans - real estate	—	—	—	—	—	136,224	136,224
Total real estate	58,101	44,439	293,045	155,303	74,302	162,718	787,908
SBA loan - non-real estate	—	11	64,906	952	—	9,282	75,151
Commercial and industrial	8,933	43,618	221	36,853	4,887	12,795	107,307
Home mortgage	—	—	—	—	114,141	14,071	128,212
Consumer	—	271	—	887	—	—	1,158
Gross loans	$ 67,034	$ 88,339	$ 358,172	$ 193,995	$ 193,330	$ 198,866	$ 1,099,736

(Dollars in thousands)	As of December 31, 2019						
	Due in One Year or Less		Due after One Year Through Five Years		Due after Five Years		
	Fixed Rate	Adjustable Rate	Fixed Rate	Adjustable Rate	Fixed Rate	Adjustable Rate	Total
Real estate:							
Commercial real estate	$ 40,641	$ 30,792	$ 267,292	$ 173,730	$ 77,338	$ 40,875	$ 630,668
SBA loans - real estate	—	—	—	—	—	122,373	122,373
Total real estate	40,641	30,792	267,292	173,730	77,338	163,248	753,041
SBA loan - non-real estate	—	41	—	772	—	9,082	9,895
Commercial and industrial	—	52,220	398	35,016	—	16,218	103,852
Home mortgage	—	—	—	—	112,662	8,024	120,686
Consumer	—	895	—	1,769	—	—	2,664
Gross loans	$ 40,641	$ 83,948	$ 267,690	$ 211,287	$ 190,000	$ 196,572	$ 990,138

Our loan portfolio is concentrated in commercial real estate, commercial (primarily manufacturing, wholesale, and services oriented entities), SBA loans (unguaranteed portion) with the remaining balance in home mortgage, and consumer loans. We do not have any material concentrations by industry or group of industries in the loan portfolio. However, 83.3% of our gross loans were secured by real property at December 31, 2020, compared to 88.2% at December 31, 2019.

We have established concentration limits in the loan portfolio for commercial real estate loans, commercial and industrial loans, and unsecured lending, among others. All loan types are within established limits. We use underwriting guidelines to assess the borrowers’ historical cash flow to determine debt service, and we further stress test the debt service under higher interest rate scenarios. Financial and performance covenants are used in commercial lending agreements to allow us to react to a borrower’s deteriorating financial condition, should that occur.

Commercial real estate loans include owner-occupied and non-occupied commercial real estate. We originate both fixed and adjustable rate loans. Adjustable rate loans are based on the *Wall Street Journal* prime rate. At December 31, 2020, approximately 65% of the commercial real estate portfolio consisted of fixed-rate loans. Our policy maximum loan-to-value, or LTV, is 70% for commercial real estate loans. At December 31, 2020, our average loan to value for commercial real estate loans was 53%. Our commercial real estate loan portfolio totaled $651.7 million at December 31, 2020 compared to $630.7 million at December 31, 2019, and $503.8 million at December 31, 2018.

We are designated an SBA Preferred Lender under the SBA Preferred Lender Program. We offer mostly SBA 7(a) variable-rate loans. We generally sell the 75% guaranteed portion of the SBA loans that we originate. Our SBA loans are typically made to small-sized manufacturing, wholesale, retail, hotel/motel and service businesses for working capital needs or business expansions. SBA loans have maturities up to 25 years. Typically, non-real estate secured loans mature in less than 10 years. Collateral may also include inventory, accounts receivable and equipment, and may include personal guarantees. Our unguaranteed SBA loans collateralized by real estate are monitored by collateral type and included in our CRE Concentration Guidance.

As of December 31, 2020, our SBA portfolio totaled $211.4 million including $64.9 million of SBA PPP loans, compared to $132.3 million as of December 31, 2019. These increases were primarily due to origination of SBA PPP loans and continued growth of our SBA loan portfolio. We originated $204.5 million, including $66.3 million of SBA PPP loans, and $110.5 million during the years ended December 31, 2020 and 2019, respectively. We sold $113.9 million and $85.0 million of SBA loans during the years ended December 31, 2020 and 2019, respectively. SBA portfolio totaled $127.4 million at December 31, 2018.

From our total SBA loan portfolio, $136.2 million is secured by real estate and $75.2 million is unsecured or secured by business assets at December 31, 2020.

Commercial and industrial loans totaled $107.3 million at December 31, 2020, compared to $103.9 million at December 31, 2019 and $114.0 million at December 31, 2018.

We originate mainly non-qualified, alternative documentation single-family home mortgage loans ("home mortgage") primarily through broker relationships, but also through our branch network. The loan product is a five-year or seven-year hybrid adjustable rate mortgage, which reprices after five years to the one-year LIBOR plus certain spreads. We originate the non-qualified single-family home mortgage loans held by us for investment.

Home mortgage loans totaled $128.2 million at December 31, 2020, compared to $120.7 million at December 31, 2019, an increase of $7.5 million, or 6.2%. The increase was primarily due to greater loan originations in 2020, compared to 2019. During the year ended December 31, 2020, we originated $48.2 million and sold $9.2 million in home mortgage loans. Payoffs and paydowns for the same period were $26.7 million and $5.5 million, respectively. During the same period in 2019, we originated $28.8 million and sold $5.7 million in home mortgage loans. Payoffs and paydowns for the same period were $24.6 million and $5.9 million, respectively. Home mortgage loans totaled $127.3 million at December 31, 2018.

Loan Payment Deferrals: As a result of the COVID-19 pandemic, a loan modification program was designed and implemented to assist our clients experiencing financial stress resulting from the economic impacts caused by the global pandemic. The Company has offered loan payment deferrals of up to twelve months for commercial and consumer borrowers impacted by the pandemic who have not been delinquent over 30 days on payments at the time of borrowers' deferral requests. As of December 31, 2020, the Company processed loan deferments for borrowers across multiple industries representing 183 loan accounts, with an aggregate loan balance of $236.2million under the interagency guidance and Section 4013 of the CARES Act. Recent interagency guidance from the Federal Reserve and the Federal Deposit Insurance Corporation confirmed with the FASB that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief, are not to be considered TDRs. We believe our loan modification program satisfies the applicable requirements.

As of December 31, 2020, 165 loans with an aggregate balance of $205.0 million, including 67 home mortgage loans with an aggregate balance of $29.2 million, have resumed regular payments.

The following tables summarize loan portfolio breakdown by industry and loan deferral requests as of the dates presented:

Loan Portfolio Breakdown by Industry

Excluding home mortgage and consumer loans

(Dollars in thousands)	**As of December 31, 2020**			
Industry	**Number of accounts**	**% of total**	**Balance**	**% of total**
Real estate lessors	233	11.3%	$ 373,132	37.1%
Hotel / motel	192	9.3	143,683	14.3
Food services / restaurant	282	13.7	38,645	3.8
Car washes	51	2.5	36,967	3.7
Laundry services	81	3.9	20,340	2.0
Educational service	14	0.7	6,502	0.6
Other	1,210	58.7	386,170	38.4
Total	2,063	100.0%	$ 1,005,439	100.0%

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Loan Deferment Summary by Industry
Excluding home mortgage and consumer loans

(Dollars in thousands)	As of December 31, 2020					
	Number of accounts			Loan balance		
Industry	Number of accounts	% of deferment	% of total loans	Balance	% of deferment	% of total loans
Real estate lessors	1	6.3%	0.4%	$ 1,302	4.3%	0.3%
Hotel / motel	10	62.5	5.2	20,276	67.3	14.1
Food services / restaurant	1	6.3	0.4	148	0.5	0.4
Car washes	1	6.3	2.0	2,148	7.1	5.8
Laundry services	1	6.3	1.2	330	1.1	1.6
Educational service	1	6.3	7.1	5,373	17.8	82.6
Other	1	6.3	0.1	556	1.8	0.1
Total	16	100.0%	0.8%	$ 30,133	100.0%	3.0%

Loan Deferment Summary by Loan Type

(Dollars in thousands)	As of December 31, 2020					
	Number of accounts			Loan balance		
Loan Type	Number of accounts	% of deferment	% of total loans	Balance	% of deferment	% of total loans
Real estate loans	14	77.8%	3.9%	$ 29,655	95.1%	4.6%
C & I loans	2	11.1	1.0	478	1.5	0.4
Loans, excluding home mortgage and consumer loans	16	88.9	0.8	30,133	96.6	3.0
Home mortgage loans	2	11.1	0.6	1,053	3.4	0.8
Total	18	100.0%	0.8%	$ 31,186	100.0%	2.7%

Loan Deferment Status Change by Loan Type

(Dollars in thousands)	As of December 31, 2020					
	Total deferments under the CARES Act through December 31, 2020		Payment resumed or paid off through December 31, 2020		Remaining deferments as of December 31, 2020	
Loan Type	Number of accounts	Balance	Number of accounts	Balance	Number of accounts	Balance
Loans, excluding home mortgage and consumer loans	114	$ 206,011	98	$ 175,878	16	$ 30,133
Home mortgage loans	69	30,205	67	29,152	2	1,053
Total	183	$ 236,216	165	$ 205,030	18	$ 31,186

Loan Servicing

As of December 31, 2020, 2019, and 2018, we serviced $388.8 million, $347.8 million, and $328.5 million respectively, of SBA loans for others. Activity for loan servicing rights was as follows:

	Year Ended December 31,		
(Dollars in thousands)	**2020**	**2019**	**2018**
Beginning balance	$ 7,024	$ 6,987	$ 6,771
Additions	2,073	2,121	2,257
Amortized to expense	(1,737)	(2,084)	(2,041)
Ending balance	$ 7,360	$ 7,024	$ 6,987

Loan servicing rights are reported on our consolidated balance sheets and reported net of amortization.

Allowance for Loan Losses

The allowance for loan losses is an estimate of probable incurred losses in the loan portfolio. Loans are charged-off against the allowance when management believes a loan balance is uncollectible. Subsequent recoveries, if any, are credited to the allowance for loan losses. Management's methodology for estimating the allowance balance consists of several key elements, which include specific allowances on individual impaired loans and the formula driven allowances on pools of loans with similar risk characteristics. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.

The allowance for loan losses is determined on a quarterly basis and reflects management's estimate of probable incurred credit losses inherent in the loan portfolio. We also rely on internal and external loan review procedures to further assess individual loans and loan pools, and economic data for overall industry and geographic trends. The computation includes element of judgment and high levels of subjectivity.

A loan is considered impaired when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans include loans on non-accrual status and performing restructured loans. Income from loans on non-accrual status is recognized to the extent cash is received and when the loan's principal balance is deemed collectible. Depending on a particular loan's circumstances, we measure impairment of a loan based upon either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral less estimated costs to sell if the loan is collateral dependent. A loan is considered collateral dependent when repayment of the loan is based solely on the liquidation of the collateral. Fair value, where possible, is determined by independent appraisals, typically on an annual basis. Between appraisal periods, the fair value may be adjusted based on specific events, such as if deterioration of quality of the collateral comes to our attention as part of our problem loan monitoring process, or if discussions with the borrower lead us to believe the last appraised value no longer reflects the actual market value for the collateral. The impairment amount on a collateral-dependent loan is charged-off to the allowance if deemed not collectible and the impairment amount on a loan that is not collateral-dependent is set up as a specific reserve.

In cases where a borrower experiences financial difficulties and we make certain concessionary modifications to contractual terms, the loan is classified as a troubled debt restructuring. These concessions may include a reduction of the interest rate, principal or accrued interest, extension of the maturity date or other actions intended to minimize potential losses. Loans restructured at a rate equal to or greater than that of a new loan with comparable risk at the time the loan is modified may be excluded from restructured loan disclosures in years subsequent to the restructuring if the loans are in compliance with their modified terms. A restructured loan is considered impaired despite its accrual status and a specific reserve is calculated based on the present value of expected cash flows discounted at the loan's effective interest rate or the fair value of the collateral less estimated costs to sell if the loan is collateral dependent. Interest income on impaired loans is accrued as earned, unless the loan is placed on non-accrual status.

The allowance for loan losses was $15.4 million at December 31, 2020, compared to $10.1 million at December 31, 2019 and $9.6 million at December 31, 2018. The increase was primarily due to adjustments to qualitative factors on all loan types to reflect the pandemics' potential impacts and the overall growth in the size of our gross loan portfolio. The provision for loan losses for the year ended December 31, 2020 was $6.0 million. The qualitative factors accounted for $4.3 million and the quantitative factors accounted for $1.6 million. Our gross loan portfolio grew $109.6 million, or 11.1%, to $1.10 billion at December 31, 2020 from $990.1 million at December 31, 2019, and $115.1 million, or 13.2% to $990.1 million at December 31, 2019 from $875.1 million at December 31, 2018.

In determining the allowance and the related provision for loan losses, we consider three principal elements: (i) valuation allowances based upon probable losses identified during the review of impaired commercial and industrial, commercial real estate, construction and land development loans; (ii) allocations, by loan classes, on loan portfolios based on historical loan loss experience and qualitative factors; and (iii) review of the credit discounts in relationship to the valuation allowance calculated for purchased loans. Provisions for loan losses are charged to operations to record changes to the total allowance to a level deemed appropriate by us.

It is the policy of management to maintain the allowance for loan losses at a level adequate for risks inherent in the loan portfolio. The Federal Reserve Board and the DFPI also review the allowance for loan losses as an integral part of their examination process. Based on information currently available, management believes that our allowance for loan losses is adequate. However, the loan portfolio can be adversely affected if California economic conditions and the real estate market in our market area were to weaken. The effect of such events, although uncertain at this time, could result in an increase in the level of nonperforming loans and increased loan losses, which could adversely affect our future growth and profitability. No assurance of the ultimate level of credit losses can be given with any certainty.

Analysis of the Allowance for Loan Losses

The following table provides an analysis of the allowance for loan losses, provision for loan losses and net charge-offs, by category, for the years ended December 31, 2020, 2019 and 2018.

	As of and For the Year Ended December 31, 2020			As of and For the Year Ended December 31, 2019			As of and For the Year Ended December 31, 2018		
(Dollars in thousands)	**Provision**	**Net Charge-offs**	**ALL Balance**	**Provision**	**Net Charge-offs**	**ALL Balance**	**Provision**	**Net Charge-offs**	**ALL Balance**
Real estate:									
Commercial real estate	$ 2,505	$ —	$ 8,505	$ 1,195	$ —	$ 6,000	$ 4	$ —	$ 4,805
SBA loans - real estate	863	—	1,802	734	689	939	(188)	—	894
Total real estate	3,368	—	10,307	1,929	689	6,939	(184)	—	5,699
SBA loan - non-real estate	174	17	278	(384)	—	121	103	136	505
Commercial and industrial	1,274	—	2,563	(457)	—	1,289	1,115	634	1,746
Home mortgage	518	—	2,185	14	—	1,667	245	—	1,653
Consumer	(16)	(1)	19	-	(1)	34	(12)	—	33
Total	$ 5,318 (1)	$ 16	$ 15,352	$ 1,102	$ 688	$ 10,050	$ 1,267	$ 770	$ 9,636
Gross loans (2)			$ 1,099,736			$ 990,138			$ 875,059
Average gross loans			1,038,387			929,720			820,586
Net charge-offs to average gross loans (3)			0.00%			0.07%			0.09%
Allowance for loans losses to gross loans			1.40%			1.02%			1.10%

(1) Loan loss provision for the year ended December 31, 2020, reported on income statement is $6.0 million. The difference of $643,000 is allocated to allowance on accrued interest receivable on loan deferrals or loan modifications.
(2) Loans held for sale of $26,659, $2,100, and $24,559 as of the year ended December 31, 2020, 2019, and 2018, respectively, are excluded.
(3) Net charge-offs are loan charge-offs net of loan recoveries.

Non-performing Loans

Loans are considered delinquent when principal or interest payments are past due 30 days or more. Delinquent loans may remain on accrual status between 30 days and 90 days past due. Loans on which the accrual of interest has been discontinued are designated as non-accrual loans. Typically, the accrual of interest on loans is discontinued when principal or interest payments are 90 days past due or when, in the opinion of management, there is a reasonable doubt as to collectability in the normal course of business. When loans are placed on non-accrual status, all interest previously accrued, but not collected, is reversed against current period interest income. Income on non-accrual loans is subsequently recognized only to the extent that cash is received, and the loan's principal balance is deemed collectible. Loans are restored to accrual status when loans become well-secured and management believes full collectability of principal and interest is probable.

Real estate we acquire as a result of foreclosure or by deed-in-lieu of foreclosure is classified as OREO until sold, and is initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. We had no OREO at December 31, 2020, 2019 and 2018.

Non-performing loans include loans that are 90 days past due and still accruing, loans accounted for on a non-accrual basis and accruing restructured loans. Non-performing assets consist of non-performing loans plus OREO.

Non-performing loans were $985,000 at December 31, 2020, compared to $1.5 million at December 31, 2019 and $1.9 million at December 31, 2018. The non-performing loans at December 31, 2019 were paid off in 2020. In 2019, we transferred one non-accrual SBA loan and one non-accrual commercial loan, which were non-performing loans in 2018, to OREO and sold the OREO. We did not recognize any interest income on non-accrual loans during the years ended December 31, 2020, 2019, and 2018 while the loans were in non-accrual status. Additional interest income that we would have recognized on these loans had they been current in accordance with their original terms was $40,000 for the year ended December 31, 2020, $40,000 for the year ended December 31, 2019 and $27,000 for the same period of 2018.

We recognized interest income on loans modified under troubled debt restructurings of $4,000 for the year ended December 31, 2020, $20,000 for the year ended December 31, 2019, and $19,000 for the year ended December 31, 2018, respectively. The loan modified under troubled debt restructurings was placed to non-accrual status at December 31, 2020.

The following table sets forth the allocation of our non-performing assets among our different asset categories as of the dates indicated. Non-performing loans include non-accrual loans, loans past due 90 days or more and still accruing interest, and loans modified under troubled debt restructurings.

	As of December 31,		
(Dollars in thousands)	**2020**	**2019**	**2018**
Non-accrual loans	$ 985	$ 1,215	$ 1,571
Past due loans 90 days or more and still accruing	—	—	—
Accruing troubled debt restructured loans	—	333	343
Total non-performing loans	985	1,548	1,914
Other real estate owned	—	—	—
Total non-performing assets	$ 985	$ 1,548	$ 1,914
Non-performing loans to gross loans	0.09%	0.16%	0.22%
Non-performing assets to total assets	0.07%	0.13%	0.18%
Allowance for loan losses to non-performing loans	1,558%	649%	503%

Deposits

We gather deposits primarily through our branch locations. We offer a variety of deposit products including demand deposits accounts, interest-bearing products, savings accounts and certificate of deposits. We put continued effort into gathering noninterest demand deposits accounts through marketing to our existing and new loan customers, customer referrals, our marketing staff and various involvement with community networks.

The following table show the composition of deposits by type as of the dates indicated:

	As of December 31,					
	2020		2019		2018	
(Dollars in thousands)	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
Noninterest-bearing demand	$ 522,754	43.6%	$ 294,281	28.8%	$ 285,132	31.5%
Interest-bearing:						
Money market and others	328,323	27.4%	296,618	29.1%	264,770	29.3%
Time deposits (more than $250,000)	200,210	16.7%	213,345	20.9%	164,281	18.1%
Time deposits ($250,000 or less)	148,803	12.4%	216,467	21.2%	190,993	21.1%
Total interest-bearing	677,336	56.4%	726,430	71.2%	620,044	68.5%
Total deposits	$ 1,200,090	100.0%	$ 1,020,711	100.0%	$ 905,176	100.0%

The following table summarizes our average deposit balances and weighted average rates for the years ended December 31, 2020, 2019 and 2018:

	As of December 31,					
	2020		2019		2018	
(Dollars in thousands)	**Average Balance**	**Weighted Average Rate**	**Average Balance**	**Weighted Average Rate**	**Average Balance**	**Weighted Average Rate**
Noninterest-bearing demand	$ 406,401	—%	$ 276,073	—%	$ 260,697	—%
Interest-bearing:						
Money market and others	307,316	0.71	278,384	1.76	259,889	1.36
Time deposits (more than $250,000)	203,936	1.46	202,734	2.42	140,235	1.80
Time deposits ($250,000 or less)	187,731	1.67	199,106	2.36	164,172	1.78
Total interest-bearing	698,983	1.19	680,224	2.13	564,296	1.59
Total deposits	$ 1,105,384	0.75	$ 956,297	1.52	$ 824,993	1.09

The following tables set forth the maturity of time deposits at December 31, 2020 and 2019:

	As of December 31, 2020 Maturity Within:				
(Dollars in thousands)	**Three Months**	**Three to Six Months**	**Six to 12 Months**	**After 12 Months**	**Total**
Time deposits (more than $250,000)	$ 107,198	$ 25,498	$ 63,818	$ 3,696	$ 200,210
Time deposits ($250,000 or less)	33,474	28,020	80,308	7,001	148,803
Total time deposits	$ 140,672	$ 53,518	$ 144,126	$ 10,697	$ 349,013

	As of December 31, 2019 Maturity Within:				
(Dollars in thousands)	**Three Months**	**Three to Six Months**	**Six to 12 Months**	**After 12 Months**	**Total**
Time deposits (more than $250,000)	$ 60,904	$ 76,166	$ 72,656	$ 3,619	$ 213,345
Time deposits ($250,000 or less)	35,612	86,328	85,650	8,877	216,467
Total time deposits	$ 96,516	$ 162,494	$ 158,306	$ 12,496	$ 429,812

Borrowed Funds

Other than deposits, we also utilized FHLB advances as a supplementary funding source to finance our operations. The advances from the FHLB are collateralized by residential and commercial real estate loans. At December 31, 2020, 2019 and 2018, we had maximum borrowing capacity from the FHLB of $394.0 million, $412.4 million and $357.1 million, respectively. We had $5.0 million in borrowings from the FHLB, which has a 0% interest rate under the Zero-Rate Recovery Advance Program, FHLB's pandemic relief initiatives. We had no borrowings from FHLB at December 31, 2019 and December 31, 2018.

Liquidity

Liquidity refers to the measure of our ability to meet the cash flow requirements of depositors and borrowers, while at the same time meeting our operating, capital and strategic cash flow needs, all at a reasonable cost. We continuously monitor our liquidity position to ensure that assets and liabilities are managed in a manner that will meet all short-term and long-term cash requirements. We manage our liquidity position to meet the daily cash flow needs of customers, while maintaining an appropriate balance between assets and liabilities to meet the return on investment objectives of our shareholders.

Our liquidity position is supported by the management of liquid assets and access to alternative sources of funds. Our liquid assets include cash, interest-bearing deposits in correspondent banks, federal funds sold, and fair value of unpledged investment securities. Other available sources of liquidity include wholesale deposits, and additional borrowings from correspondent banks, FHLB advances, and the Federal Reserve discount window.

Our short-term and long-term liquidity requirements are primarily met through cash flow from operations, redeployment of prepaying and maturing balances in our loan and investment portfolios, and increases in customer deposits. Other alternative sources of funds will supplement these primary sources to the extent necessary to meet additional liquidity requirements on either a short-term or long-term basis.

We had $100.0 million of unsecured federal funds lines with no amounts advanced at December 31, 2020, compared to $13.5 million at December 2019 and December 31, 2018, respectively. In addition, on such dates we had lines of credit from the Federal Reserve discount window of $125.7 million, $124.0 million and $107.7 million, respectively. The Federal Reserve discount window lines were collateralized by a pool of commercial real estate loans and commercial and industrial loans totaling $219.1 million, $206.7 million and $179.4 million at December 31, 2020, 2019 and 2018, respectively. We did not have any borrowings outstanding with the Federal Reserve at December 31, 2020, 2019 or 2018, and our borrowing capacity is limited only by eligible collateral.

Based on the values of loans pledged as collateral, we had $263.0 million of additional borrowing availability with the FHLB at December 31, 2020. We also maintain relationships in the capital markets with brokers to issue certificates of deposit and money market accounts.

Capital Requirements

We are subject to various regulatory capital requirements administered by the federal and state banking regulators. Failure to meet regulatory capital requirements may result in certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for "prompt corrective action", we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting policies. The capital amounts and classifications are subject to qualitative judgments by the federal banking regulators regarding components, risk weightings and other factors. Qualitative measures established by regulation to ensure capital adequacy required us to maintain minimum amounts and various ratios of CET1 capital, Tier 1 capital and total capital to risk-weighted assets and of Tier 1 capital to average consolidated assets, referred to as the "leverage ratio." For further information, see "Supervision and Regulation."

The table below also summarizes the capital requirements applicable to us and the Bank in order to be considered “well-capitalized” from a regulatory perspective, as well as our and the Bank’s capital ratios as of December 31, 2020 and 2019. The Bank exceeded all regulatory capital requirements under the Basel III Capital Rules and were considered to be “well-capitalized” as of the dates reflected in the table below. At December 31, 2020, the FDIC categorized us as well-capitalized under the prompt corrective action framework. There have been no conditions or events since December 31, 2020 that management believes would change this classification.

	Actual		Regulatory Capital Ratio Requirements		Minimum To be Considered "Well Capitalized"		Regulatory Capital Ratio Requirements, including fully phased in Capital Conservation Buffer	
(Dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2020:								
Total capital (to risk-weighted assets)								
Consolidated	$ 155,287	14.81%	N/A	N/A	N/A	N/A	N/A	N/A
Bank	152,232	14.52%	83,859	8.00%	104,824	10.00%	110,065	10.50%
Tier 1 capital (to risk-weighted assets)								
Consolidated	142,147	13.56%	N/A	N/A	N/A	N/A	N/A	N/A
Bank	139,092	13.27%	62,894	6.00%	83,859	8.00%	89,101	8.50%
CET1 capital (to risk-weighted assets)								
Consolidated	142,147	13.56%	N/A	N/A	N/A	N/A	N/A	N/A
Bank	139,092	13.27%	47,171	4.50%	68,136	6.50%	73,377	7.00%
Tier 1 capital (to average assets)								
Consolidated	142,147	10.55%	N/A	N/A	N/A	N/A	N/A	N/A
Bank	139,092	10.32%	53,915	4.00%	67,393	5.00%	53,915	4.00%

Note: The capital requirements are only applicable to the Bank, and the Company's ratios are included for comparison purpose.

(Dollars in thousands)	Actual		Regulatory Capital Ratio Requirements		Minimum To be Considered "Well Capitalized"		Regulatory Capital Ratio Requirements, including fully phased in Capital Conservation Buffer	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2019:								
Total capital (to risk-weighted assets)								
Consolidated	$ 150,092	15.18%	N/A	N/A	N/A	N/A	N/A	N/A
Bank	147,820	14.96%	79,069	8.00%	98,836	10.00%	103,778	10.50%
Tier 1 capital (to risk-weighted assets)								
Consolidated	139,975	14.16%	N/A	N/A	N/A	N/A	N/A	N/A
Bank	137,703	13.93%	59,301	6.00%	79,069	8.00%	84,010	8.50%
CET1 capital (to risk-weighted assets)								
Consolidated	139,975	14.16%	N/A	N/A	N/A	N/A	N/A	N/A
Bank	137,703	13.93%	44,476	4.50%	64,243	6.50%	69,185	7.00%
Tier 1 capital (to average assets)								
Consolidated	139,975	12.14%	N/A	N/A	N/A	N/A	N/A	N/A
Bank	137,703	11.95%	46,103	4.00%	57,629	5.00%	46,103	4.00%

Note: The capital requirements are only applicable to the Bank, and the Company's ratios are included for comparison purpose.

Contractual Obligations

The following tables contain supplemental information regarding our total contractual obligations at December 31, 2020 and 2019:

(Dollars in thousands)	Payments Due at December 31, 2020				
	Within One Year	One to Three Years	Three to Five Years	After Five Years	Total
Deposits without a stated maturity	$ 851,077	$ —	$ —	$ —	$ 851,077
Time deposits	338,316	9,578	522	597	349,013
Operating lease commitments	2,047	3,844	2,376	956	9,223
Advances from FHLB	5,000	—	—	—	5,000
Commitments to fund investment for Low Income Housing Tax Credit	1,042	1,036	29	47	2,154
Total contractual obligations	$ 1,197,482	$ 14,458	$ 2,927	$ 1,600	$ 1,216,467

(Dollars in thousands)	Payments Due at December 31, 2019				
	Within One Year	One to Three Years	Three to Five Years	After Five Years	Total
Deposits without a stated maturity	$ 590,899	$ —	$ —	$ —	$ 590,899
Time deposits	417,316	12,006	490	—	429,812
Operating lease commitments	2,001	4,060	3,518	1,641	11,220
Commitments to fund investment for Low Income Housing Tax Credit	29	12	23	6	70
Total contractual obligations	$ 1,010,245	$ 16,078	$ 4,031	$ 1,647	$ 1,032,001

We believe that we will be able to meet our contractual obligations as they come due through the maintenance of adequate cash levels. We expect to maintain adequate cash levels through profitability, loan and securities repayment and maturity activity and continued deposit gathering activities. We have in place various borrowing mechanisms for both short-term and long-term liquidity needs.

Off-Balance Sheet Arrangements

We are a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in our consolidated balance sheet. The contractual or notional amounts of those instruments reflect the extent of involvement we have in particular classes of financial instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. We evaluate each customer’s creditworthiness on a case-by-case basis. The amount of collateral obtained, if we deem collateral is necessary upon extension of credit, is based on management’s credit evaluation of the counterparty.

Standby letters of credit are conditional commitments issued by us to guarantee the performance of a customer to a third party. They are intended to be disbursed, subject to certain condition, upon request of the borrower.

The following table summarized commitments as of the dates presented.

	As of December 31,		
(Dollars in thousands)	**2020**	**2019**	**2018**
Commitments to extend credit	$ 75,740	$ 66,153	$ 60,789
Standby letters of credit	9,212	7,377	1,790
Total	$ 84,952	$ 73,530	$ 62,579

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Market risk represents the risk of loss due to changes in market values of assets and liabilities. We incur market risk in the normal course of business through exposures to market interest rates, equity prices, and credit spreads. We have identified interest rate risk as our primary source of market risk.

Interest Rate Risk

Interest rate risk is the risk to earnings and value arising from changes in market interest rates. Interest rate risk arises from timing differences in the repricings and maturities of interest-earning assets and interest-bearing liabilities (repricing risk), changes in the expected maturities of assets and liabilities arising from embedded options, such as borrowers’ ability to prepay home mortgage loans at any time and depositors’ ability to redeem certificates of deposit before maturity (option risk), changes in the shape of the yield curve where interest rates increase or decrease in a nonparallel fashion (yield curve risk), and changes in spread relationships between different yield curves, such as U.S. Treasuries and LIBOR (basis risk).

Our board’s asset liability committee, or ALM, establishes broad policy limits with respect to interest rate risk. Our management’s asset liability committee, or ALCO, establishes specific operating guidelines within the parameters of the policies set by the ALM. In general, we seek to minimize the impact of changing interest rates on net interest income and the economic values of assets and liabilities. Our ALCO monitors the level of interest rate risk sensitivity on a quarterly basis to ensure compliance with the ALM-approved risk limits. The policy requires a periodic review of all key assumptions used, such as identifying appropriate interest rate scenarios, setting loan prepayment rates based on historical analysis, and noninterest-bearing and interest-bearing deposit durations based on historical analysis.

Interest rate risk management is an active process that encompasses monitoring loan and deposit flows complemented by investment and funding activities. Effective management of interest rate risk begins with understanding the dynamic characteristics of assets and liabilities and determining the appropriate interest rate risk posture given business forecasts, management objectives, market expectations, and policy constraints.

An asset sensitive position refers to a balance sheet position in which an increase in short-term interest rates is expected to generate higher net interest income, as rates earned on our interest-earning assets would reprice upward more quickly than rates paid on our interest-bearing liabilities, thus expanding our net interest margin. Conversely, a liability sensitive position refers to a balance sheet position in which an increase in short-term interest rates is expected to generate lower net interest income, as rates paid on our interest-bearing liabilities would reprice upward more quickly than rates earned on our interest-earning assets, thus compressing our net interest margin.

Interest rate risk measurement is calculated and reported to the ALCO and ALM at least quarterly. The information reported includes period-end results and identifies any policy limits exceeded, along with an assessment of the policy limit breach and the action plan and timeline for resolution, mitigation, or assumption of the risk.

Evaluation of Interest Rate Risk

We use a net interest income simulation model to measure and evaluate potential changes in our net interest income. We run various hypothetical interest rate scenarios at least quarterly and compare these results against a scenario with no changes in interest rates. We use two approaches to model interest rate risk: Earnings at Risk, or EAR, and Economic Value of Equity, or EVE. Under EAR, net interest income is modeled utilizing various assumptions for assets and liabilities. EVE measures the period end market value of assets minus the market value of liabilities and the change in this value as rates change. EVE is a period end measurement.

Our simulation model incorporates various assumptions, which we believe are reasonable but which may have a significant impact on results such as: (i) the timing of changes in interest rates; (ii) shifts or rotations in the yield curve; (iii) re-pricing characteristics for market-rate-sensitive instruments; (iv) varying loan prepayment speeds for different interest rate scenarios; and (v) the overall growth and mix of assets and liabilities. Because of limitations inherent in any approach used to measure interest rate risk, simulation results are not intended as a forecast of the actual effect of a change in market interest rates on our results but rather as a means to better plan and execute appropriate asset-liability management strategies and manage our interest rate risk.

Potential changes to our net interest income in hypothetical rising and declining rate scenarios calculated as of December 31, 2020, 2019 and 2018 are presented in the following table. The projections assume (1) immediate, parallel shifts downward of the yield curve of 100 basis points and (2) immediate, parallel shifts upward of the yield curve of 100, 200, 300 and 400 basis points over 12 months. In the current interest rate environment, a downward shift of the yield curve of 200, 300 and 400 basis points does not provide us with meaningful results. In a downward parallel shift of the yield curve, interest rate at the short-end of the yield curve are not modeled to decline any further than 0%.

	Net Interest Income Sensitivity			**Economic Value of Equity Sensitivity**		
	December 31,			**December 31,**		
	2020	**2019**	**2018**	**2020**	**2019**	**2018**
+400 basis points	30.27%	18.23%	16.25%	10.14%	(3.61)%	(2.94)%
+300 basis points	23.87%	14.64%	13.16%	12.73%	(0.54)%	(0.01)%
+200 basis points	16.85%	10.51%	9.32%	13.55%	1.75%	1.55%
+100 basis points	8.99%	5.79%	5.11%	11.14%	2.38%	2.62%
-100 basis points	—%	(5.26)%	(3.30)%	(20.87)%	(6.93)%	(4.38)%

Item 8. Financial Statements and Supplementary Data.

The Financial Statements required by this Item 8 is contained on pages F-1 through F-36 of this 10-K and are incorporated herein by reference:

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of disclosure controls and procedures

The Company's management, including our President and Chief Executive Officer and our Chief Financial Officer, have evaluated the effectiveness of our "disclosure controls and procedures" (as defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered in this report. Based on such evaluation, our President and Chief Executive Officer and our Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective as of that date to provide reasonable assurance that the information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its President and Chief Executive Officer and its Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control Over Financial Reporting

The Company is not currently required to comply with the rules of the SEC implementing Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, and is therefore not required to make a formal assessment of the effectiveness of our internal control over financial reporting for that purpose.

Changes in internal control over financial reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) during the fiscal year to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The board of directors

The Board of Directors oversees our business and monitors the performance of management. In accordance with corporate governance principles, the Board does not involve itself in day-to-day operations. The directors keep themselves informed through, among other things, discussions with the Chief Executive Officer, other key executives and our principal outside advisors (legal counsel, outside auditors, and other consultants), by reading reports and other materials that we send them and by participating in Board and committee meetings.

Pursuant to OP Bancorp’s Articles of Incorporation and Bylaws, our Board of Directors is authorized to have not less than seven members nor more than 13 members, and is currently comprised of eight members. The exact number of directors may be fixed from time to time within the range set forth in our Bylaws by a Bylaw or amendment thereof duly adopted by the vote of a majority of the shares entitled to vote represented at a duly held meeting at which a quorum is present, or by the written consent of the holders of a majority of the outstanding shares entitled to vote, or by resolution of our Board. Our Board of Directors has affirmatively determined that seven of our eight current directors qualify as independent directors based upon the rules of the Nasdaq Stock Market and the SEC. There are no arrangements or understandings between any of the directors and any other person pursuant to which he or she was selected as a director.

The following provides biographical information for our directors, including their names, ages and year in which they began serving as a director of the Company (or the Bank prior to the Company’s formation in 2016). All of the directors of Open Bank became members of the OP Bancorp board of directors when we reorganized into our present bank holding company structure in 2016. The age indicated in each director’s biography is as of December 31, 2020.

Brian Choi. Mr. Choi, age 70, a director of the Bank since 2008, has served as the Chairman of the Board of the Bank since 2010, and OP Bancorp since 2016. Mr. Choi has served as Chairman and Chief Executive Officer of Universal Financing Corporation since 1991, and as Chairman and Chief Executive Officer of Ehese Investments, LLC since 2001. Mr. Choi has previous experience as a bank director with Alaska First Bank & Trust (formerly First Interstate Bank of Alaska) where he served on the Board from 1999 through 2008. He was the president of the Korean Community of Anchorage, Alaska from 2003 to 2004. He was the President of the Korean Christian Businessmen’s Committee of North America from 2006 to 2008. He also served as the President of the Federation of Korean American Association of Northwest States of United States of America, which included Oregon, Washington, Idaho, Montana, and Alaska from 2010 to 2012. Mr. Choi is a graduate of Korea University where he received a Bachelor of Science in Political Science and Foreign Relations. Mr. Choi contributes to the Board over 21 years of leadership and substantial experience in the community banking industry. He brings a wide-ranging understanding of the bank management, finance and operations. His leadership ability, judgment and prior business executive experience led the Board to elect him as Chairman of the Board.

Ernest E. Dow. Mr. Dow, age 71, has served as a member of the Board since the founding of the Bank in 2005. He is a Certified Public Accountant and a Principal of Dow & Sohn CPAs. He has maintained his accounting practice for over 38 years providing accounting, auditing, tax and business consulting services for international and local companies operating in Southern California. Mr. Dow served as a director for Pacific Union Bank from May 2003 until the bank's acquisition by Hanmi Bank in April 2004. Mr. Dow is a member of the California Society of Certified Public Accountants. Mr. Dow obtained his Bachelor of Science from California State University, Northridge, in 1976. Mr. Dow's significant accounting experience provides among other things in-depth knowledge of generally accepted accounting principles and auditing standards to the Board. Mr. Dow was a member of Choi Dow Ivan Hong & Lee Accountancy Corporation ("CDIH&L") from August 1992 to December 2007.

Jason Hwang. Mr. Hwang, age 70, has served as a Board member since the founding of the Bank in 2005.He is a certified public accountant and is a partner in the accounting firm of Hwang, Lim & Joo, LLP and has over 35 years of experience in public accounting. He holds General Securities Registered Representative (Series 7), license. He is a past board member of number of community service organizations, including the Korean American Scholarship Fund and the Korean American National Museum. He obtained his B.S. in Accounting from California State University, Los Angeles. Mr. Hwang's significant accounting experience provides among other things in-depth knowledge of generally accepted accounting principles and auditing standards to the Board as well as extensive understanding of Bank's financial and accounting practices as well as its relationship with internal and external auditors. He is particularly suited to serve as Chair of the audit committee.

Soo Hun Jung, M.D. Dr. Jung, age 71, has served as a Board member since the founding of the Bank in 2005. He is a medical doctor who has been in private medical practice since 1982. Dr. Jung obtained his medical degree from Pusan National University College of Medicine, Pusan, South Korea, in 1975. He subsequently completed his general surgery internship at Mount Sinai Hospital, New York, in 1979 and his internal medicine residency at Hospital of the Good Samaritan (affiliated with U.S.C. Medical School) Los Angeles, in 1982. Dr. Jung is affiliated with various hospitals and medical associations. He is a Member of the Board of Good Samaritan Medical Practice Association; Good Samaritan Hospital, and Korean-American Medical Group. In addition, he is a member of American Medical Association, American College of Physicians, and Korean Medical Association. He serves as Clinical Assistant Professor of Medicine for U.S.C. School of Medicine. As a long-term member of the Board, Mr. Jung has a broad based understanding of the Company and the Bank and is deeply committed to the community through his medical practice and affiliations with medical organizations and associations.

Min J. Kim. Ms. Kim, age 61, has served as the President and Chief Executive Officer and a member of the Board of the Company and the Bank since April 2010. She has over 38 years of banking experience in the Korean banking community. Prior to joining the Bank, she served as Chief Executive Officer and President of Nara Bancorp and Nara Bank (now Bank of Hope and Hope Bancorp Inc) for three and half years assuming those positions in 2006. From 1996 to March 2006, Ms. Kim served in various executive positions with Nara Bancorp and Nara Bank, including Executive Vice President and Chief Operating Officer, Executive Vice President and Chief Credit Officer, and Senior Vice President and Chief Credit Administrator. Prior to joining Nara Bancorp and Nara Bank in 1995, Ms. Kim served in numerous positions with Hanmi Bank, including Vice President and Manager of the Western Street Branch of Hanmi Bank in Los Angeles from 1985 to 1995. Ms. Kim has a Bachelor of Sciences degree in Finance from the University of Southern California. Ms. Kim contributes to the Board her breadth of knowledge of the Company's bank business, markets, community and culture. She provides the Board with an overall perspective of all facets of the Company's business, financial condition and strategic direction.

Ock Hee Kim. Mrs. Kim, age 79, has served as a member of the Board since the founding of the Bank in 2005. She was the owner of Lily's Dress Co., an apparel manufacturing company she founded in 1974 for 30 years. Mrs. Kim is actively involved in the L.A. Central Lions Club. Mrs. Kim serves as a deaconess in Torrance Presbyterian Church. Mrs. Kim obtained her Bachelor of Arts degree in Music from Kyung Hee University in Seoul, Korea. Ms. Kim brings a valuable perspective to the Board as result of her over 30 years of experience in the apparel and garment business which is an important industry in our downtown Los Angeles and Koreatown marketing areas, as well as and her involvement in local community activities.

Myung Ja (Susan) Park. Ms. Park, age 72, has served as a Board member since the founding of the Bank in 2005. She is the owner and President of LP Royal Import LLC, an importer and national distributor of craft and wedding accessories. Ms. Park is also the current President of Park & Park, a property investment company. She is previously the President of Royal Accessories, an importer of artificial flowers and bridal accessories, a company she founded in 1986. From 1977 to 2003, Ms. Park was the sole shareholder and Chief Executive Officer of Showroom 3, Inc., a manufacturer of wedding accessories based in China. Over that same time period, Ms. Park was co-owner of B. B. World Corp, a leading importer/exporter and nationwide distributor of artificial flowers and wedding accessories. Ms. Park has been an active member of her community and served as the Vice President of the Korean Business and Professional Women's Association. She also served as the Chairwoman of the Fundraising Board of the Children of Afghanistan Relief Initiative for World Vision. Ms. Park contributes to the Board over 40 years of experience and knowledge of the import/export business, and is passionate about serving the needs of the Korean-American community.

Yong Sin Shin. Ms. Shin, age 61, has served as a Board member since the founding of the Bank in 2005. She is the President and Secretary of CJS Groups Inc (DBA Bicici & Coty Fashion), an apparel manufacturer and wholesaler in Los Angeles, California which she founded in 1994. Ms. Shin was a fashion designer and co-manager of Coty Fashion in Sao Paulo, Brazil, from 1985 to 1994. Ms. Shin obtained her Bachelor of Science in Dietary Nutrition from University of Sao Paulo, Sao Paulo, Brazil, in 1982. Ms. Shin co-founded her own manufacturing and wholesale business in Los Angeles, California and contributes to the Board her substantial business acumen developed though years of proven entrepreneurial success. Also as an active member of the Korean American Chamber of Commerce in Los Angeles she brings to the Board various business and cultural insights from the local community.

Board Leadership Structure

The Board of Directors is committed to maintaining an independent Board, and for many years a majority of the Board has been comprised of independent directors. Further, it is the practice of the Company to separate the roles of Chairman of the Board and Chief Executive Officer in recognition of the differences between the two roles. The Chief Executive Officer is responsible for setting our strategic direction and the day-to-day leadership and performance. The Chairman of the Board provides guidance to the Chief Executive Officer, sets the agenda for Board meetings, presides over meetings of the full Board (including executive sessions), and facilitates communication among the independent directors and between the independent directors and the Chief Executive Officer. The Board further believes that the separation of the duties of the Chief Executive Officer and the Chairman of the Board eliminates any inherent conflict of interest that may arise when the roles are combined, and that an independent director who has not served as an executive of the Company can best provide the necessary leadership and objectivity required as Chairman of the Board.

Compensation Committee Interlocks and Insider Participation

None of the members of our Human Resources & Compensation Committee will be or will have been one of our officers or employees. In addition, none of our executive officers serves or has served as a member of the compensation committee or other Board committee performing equivalent functions of any entity that has one or more executive officers serving as one of our directors or on our Human Resources & Compensation Committee.

Risk Management and Oversight

The Board of Directors has ultimate authority and responsibility for overseeing our risk management. The Board of Directors monitors, reviews and reacts to material enterprise risks identified by management. The Board receives specific reports from executive management on financial, credit, liquidity, interest rate, capital, operational, legal compliance and reputation risks and the degree of exposure to those risks. The Board helps ensure that management is properly focused on risk by, among other things, reviewing and discussing the performance of senior management and business line leaders. Board committees have responsibility for risk oversight in specific areas. The Audit Committee oversees financial, accounting and internal control risk management policies. The Human Resources & Compensation Committee assesses and monitors risks in our compensation program. The Nomination & Governance Committee oversees the nomination and evaluation of the Board and is responsible for overseeing our corporate governance principles. The Bank's Risk and Compliance Committee oversees the risk and compliance programs, adherence to management policies and procedures, compliance with regulatory requirements and information technology strategies and activities. The Bank's Loan & Credit Policy Committee is primarily responsible for credit and other risks arising in connection with our lending activities, which includes overseeing management committees that also address these risks. The Bank's Asset/Liability Management Committee monitors our interest rate risk, with the goal of structuring our asset-liability composition to maximize net interest income while minimizing the adverse impact of changes in interest rates on net interest income and capital.

Committees of the Board

Our Board of Directors has established standing committees in connection with the discharge of its responsibilities. These committees include the Audit Committee, the Human Resource & Compensation Committee, and the Nomination & Governance Committee. Our Board of Directors also may establish such other committees as it deems appropriate, in accordance with applicable law and regulations and our articles and bylaws.

Audit Committee

The Company has a separately designated standing Audit Committee as required by the rules of the Nasdaq Stock Market. The Audit Committee charter adopted by the Board sets out the responsibilities, authority and specific duties of the Audit Committee. The Audit Committee charter is available on the Company's website at *www.myopenbank.com* under the "Investor Relations" tab.

The responsibilities of the Audit Committee include the following:

- oversee the quality and integrity of regulatory and financial accounting, financial statements, financial reporting processes and systems of internal accounting and financial controls;
- oversee the annual independent audit of the Company's financial statements and internal control over financial reporting, the engagement of the independent registered public accounting firm and the evaluation of the independent registered public accounting firm's qualifications, independence and performance;
- oversee and retain internal audit and/or outsourced internal audit and review;
- oversee the performance of our internal/external audit function and independent registered public accounting firm;
- approve related-person transactions subject to Item 404 of Regulation S-K; and
- review and discuss the annual audited financial statements with management and the independent auditors prior to publishing the annual report and filing the Annual Report on Form 10-K with the SEC.

Each member of the Audit Committee meets the independence criteria as defined by applicable rules and regulations of the SEC for audit committee membership and is independent and is "financially sophisticated" as defined by the applicable rules and regulations of the Nasdaq Stock Market. The members of the Audit Committee are Brian Choi, Ernest E. Dow, Jason Hwang (committee chair), Soo Hun Jung, M.D., Myung Ja (Susan) Park, and Yong Sin Shin. The Audit Committee met thirteen times in 2020.

In 2020, the Board of Directors has determined that Jason Hwang has: (i) an understanding of generally accepted accounting principles and financial statements; (ii) an ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves; (iii) an experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by our financial statements, or experience actively supervising one or more persons engaged in such activities; (iv) an understanding of internal control over financial reporting; and (v) an understanding of audit committee functions.

Therefore, in 2020, the Board determined that Mr. Hwang meets the definition of “audit committee financial expert” under the applicable rules and regulations of the SEC and is “financially sophisticated” as defined by the applicable rules and regulations of the Nasdaq Stock Market. The designation of a person as an audit committee financial expert does not result in the person being deemed an expert for any purpose, including under Section 11 of the Securities Act of 1933, as amended (the “Securities Act”). The designation does not impose on the person any duties, obligations or liability greater than those imposed on any other audit committee member or any other director and does not affect the duties, obligations or liability of any other member of the Audit Committee or Board of Directors.

Human Resources & Compensation Committee

The Company has a separately designated Human Resources & Compensation Committee (“HRCC”), which consists entirely of independent directors as defined by the applicable rules and regulations of the Nasdaq Stock Market. The Human Resources & Compensation Committee has adopted a charter, which is available on our website at *www.myopenbank.com* under the “Investor Relations” tab. The Human Resources & Compensation Committee has the following responsibilities:

- annually review the Company’s competitive position for each component of the overall human resource and compensation plan (especially base salary, annual incentives, long term incentives, and supplemental executive benefit programs);
- review trends in compensation in all industries;
- annually review with the Chief Executive Officer, the Company’s compensation strategy to assure that the Chief Executive Officer and the management team (senior vice president and above) and their compensation is in relation to their contributions to the Company’s growth, profitability, and meeting strategic goals;
- annually review and recommend for approval to the Board the overall performance and total compensation for the Chief Executive Officer, including agreed upon goals and objectives relevant to the Chief Executive Officer’s compensation, evaluate the performance of the Chief Executive Officer in light of those goals and objectives, and set the Chief Executive Officer’s compensation level based upon this evaluation, taking into consideration the Company’s performance and relative shareholder return, and the value of similar incentive awards to Chief Executive Officers at comparable companies;
- annually review and recommend to the Board the annual director’s compensation and any additional compensation for services on committees of the Board, service as a committee or Board chairman, meeting fees or any other benefit payable by virtue of the director’s position as a member of the Board;
- evaluate and approve recommendations from the Chief Executive Officer regarding compensation and other employment related matters such as hiring, promotions, terminations or severance payments for all executive vice presidents, and post review of recommendations from the CEO regarding compensation and other employment related matters such as hiring, compensation, promotions, terminations or severance payments for all senior vice presidents;
- periodically review and recommend to the Board all matters pertaining to broad based benefit plans of the Company, equity plans, senior management or director bonus plans and pension plans and performance based plans;
- review, establish and modify, as it sees fit, all employment policies and procedures related to officers and directors;
- administer the annual executive incentive compensation plan in a manner consistent with the Company’s compensation strategy including the following incentive plan elements: eligibility and participation; annual allocation and actual award of equity incentive grants paid to the Chief Executive Officer and the members of the management team; corporate financial goals as they relate to total compensation; total funds reserved for payment under the plan; and annual review of the incentive equity and cash management incentive plan;

- recommend to the Board for approval of the submission to shareholders of all new equity-related incentive plans, and administer the Company’s long term incentive programs in a manner consistent with the terms of the plans including the following: eligibility; vesting terms and conditions; and total shares reserved for grants;
- annually review the Chief Executive Officer and management succession plan;
- in consultation with management, oversee regulatory compliance with respect to compensation matters, including overseeing the Company’s policies on structuring compensation programs to preserve tax deductibility;
- perform any other duties or responsibilities the Board may expressly delegate to the committee from time to time on matters relating to the Company’s compensation programs; and
- review and approve general employee welfare benefit plans and other plans on an as needed basis.

The members of the Human Resources & Compensation Committee are Brian Choi, Jason Hwang, Soo Hun Jung, M.D. (committee chair), Ock Hee Kim, Myung Ja (Susan) Park, and Yong Sin Shin. The Committee met four times in 2020.

Nomination & Governance Committee

The Company has a separately designated the Nomination & Governance Committee, which consists of entirely independent directors as defined by the applicable rules and regulations of the Nasdaq Stock Market. The Nomination & Governance Committee has adopted a charter, which is available on the Company’s website at *www.myopenbank.com* under the “Investor Relations” tab.

The purposes of the Nomination & Governance Committee include the following responsibilities:

- identify individuals qualified to become Board members;
- recommend to the Board director nominees for election at each annual meeting of shareholders or to fill vacancies on the Board;
- formulate and recommend for adoption by the full Board a policy for consideration of nominees for election to the Board who are recommended by shareholders of the Company;
- consider candidates recommended by the shareholders of the Company in accordance with the Board’s policy for such consideration;
- consider the certain qualifications and factors when evaluating and selecting potential new directors in accordance with the Corporate Governance Guidelines, see “Corporate Governance and Board Matters – Nomination of Directors”;
- in considering diversity of the Board (in all aspects of the term) as a criteria for selecting nominees to the Board the committee shall take into account various factors and perspectives, including differences of viewpoint, high quality business and professional experience, education, skills and other individual qualities and attributes that contribute to Board heterogeneity, as well as race, gender and national origin; and
- consider the impact of a material change in qualifications of a director arising from the retirement or a change in the principal occupation, position or responsibility of a director as such a change relates to continued service on the Board;
- evaluate Board performance and annually review the appropriate skills and characteristics required of Board members in the context of the current make-up or the Board, including such factors as business and professional experience, diversity and personal skills in finance, real estate capital markets, government regulation, financial reporting and other areas that are expected to contribute to an effective Board;

- review the effectiveness, structure and operation of committees of the Board and the qualifications of members of the Board committees, and recommend to the Board the directors to serve or be removed as members of each committee and to recommend additional committee members to fill any vacancies;
- develop for Board approval a set of corporate governance guidelines applicable to the Company and its subsidiary, periodically review and assess these and their application, and recommend to the Board any changes that the Committee deems appropriate; and
- develop for Board approval the Code of Business Conduct and Business Ethics Policy and periodically review and assess the codes and their application, and recommend to the Board any changes that the committee deems appropriate.

The members of the Nomination & Governance Committee are Brian Choi (committee chair), Ernest E. Dow, Jason Hwang, Soo Hun Jung, M.D, and Ock Hee Kim. The Committee met four times during 2020.

Executive Officers of the Company

The following table sets forth certain information regarding our executive officers, including their names, ages and positions:

Name	Age	Position
Min J. Kim	61	President and Chief Executive Officer of the Company and the Bank
Christine Y. Oh	53	Executive Vice President and Chief Financial Officer of the Company and the Bank
Sang K. Oh	48	Executive Vice President and Chief Credit Officer of the Bank
Ki Won Yoon	60	Executive Vice President and Chief Lending Officer of the Bank
Kathrine Duncan	64	Executive Vice President and Chief Risk Officer of the Bank
Ihnsuk J. Bang	54	Executive Vice President and Chief Banking Officer

The business experience of each of our executive officers, other than Ms. Kim, is set forth below. Biographical information for Ms. Kim is included under “The Board of Directors” section above. No executive officer has any family relationship, as defined in Item 401 of Regulation S-K, with any other executive officer or any of our current directors. There are no arrangements or understandings between any of the officers and any other person pursuant to which he or she was selected as an officer.

Christine Y. Oh. Ms. Oh was appointed Executive Vice President and Chief Financial Officer of the Bank in July 2010 and of the Company in March 2016. Ms. Oh has over 29 years of banking experience. Prior to joining the Bank, from January 2010 to July 2010 she served as Interim Chief Financial Officer and Controller of Nara Bancorp and Nara Bank (now Bank of Hope and Hope Bancorp Inc), headquartered in Los Angeles, California. Prior to assuming those positions, Ms. Oh served as Senior Vice President and Controller of Nara Bancorp and Nara Bank. Ms. Oh served as Interim Chief Financial Officer of Nara Bancorp and Nara Bank from March 2005 to July 2005. She joined Nara Bank in 1993. Prior to joining Nara Bank, Ms. Oh was a credit analyst at Center Bank where she started her banking in 1991. She has been serving as a director at Korean-American Family Services, a non-profit organization since 2014. Ms. Oh has a Bachelor of Science in Accounting from California State University, Northridge.

Sang K. Oh. Mr. Oh has served as Executive Vice President and Chief Credit Officer of the Bank since October 2020. Mr. Oh has over 23 years of banking experience, all with Bank of Hope, Los Angeles, California. Prior to joining the Bank, he served as Senior Vice President and Senior Credit Administrator at Bank of Hope since 2007, and served in a various senior lending positions with Bank of Hope since 1997. Mr. Oh has a Bachelor of Arts in Business Economics with Minor in Accounting from the University of California, Los Angeles, and a graduate of Pacific Coast Banking School.

Ki Won Yoon. Ms. Yoon has served as Executive Vice President and Chief Lending Officer since October 2013. Ms. Yoon has over 33 years of relevant lending experience, with strong ties in the Korean-American business community. Prior to joining Open Bank, Ms. Yoon was District Manager at BBCN Bank (now Bank of Hope and Hope Bancorp Inc), which she joined in 1999, and where she managed a loan portfolio of over $450 million. Ms. Yoon has a Bachelor of Arts in Food & Nutrition from Sook Myung Women's University and a graduate of Pacific Coast Banking School.

Kathrine Duncan. Ms. Duncan joined the Bank in April 2010 as Executive Vice President and Chief Risk Officer. Ms. Duncan has over 39 years of banking experience. Prior to joining the Bank, Ms. Duncan had a consulting business performing audits, compliance/CRA reviews and writing policies. From 2005 to 2009, she was Senior Vice President, Chief Corporate Services Officer at Nara Bank (now Bank of Hope and Hope Bancorp Inc.) Los Angeles, California. Prior to joining Nara Bank, she was Senior Vice President and Director of General and Administrative Services at Pacific Premier Bank from 2000 to 2005. Prior to joining Pacific Premier Bank, Ms. Duncan was Senior Vice President, Risk Management Group at Hawthorne Savings (acquired) from 1994 to 2000. Prior to 1994, she was Vice President, Audit, Compliance, CRA at East-West Bank. Ms. Duncan has a Master of Arts in Leadership and Organizational Studies from Azusa Pacific University and a Bachelor of Science in Business Administration from California State University, Los Angeles.

Ihnsuk J. Bang. Mr. Bang has served as Executive Vice President and Chief Banking Officer of the Bank since October 2020. Mr. Bang has over 22 years of lending experience. Prior to joining the Bank, he served as President at Hana Small Bank Business Lending, Inc., a nationally ranked, non-bank SBA lender, since 2011, and served in various senior lending positions with Hanmi Bank, Wells Fargo Bank, and Bank of Hope from 1991 through 2003. Mr. Bang has a Bachelor of Arts in Business Economics with Minor in Mathematics from the University of California, Santa Cruz, and a Master's in Business Administration in Finance from the Marshall School of Business at the University of Southern California.

CORPORATE GOVERNANCE AND BOARD MATTERS

The Board of Directors is committed to good business practices, transparency in financial reporting and the highest level of corporate governance. To that end, the Board continually reviews its governance policies and practices, as well as the requirements of the Sarbanes-Oxley Act of 2002 and the listing standards of the Nasdaq Stock Market, to help ensure that such policies and practices are compliant and up to date.

Board of Directors

Board Independence

In 2020, seven out of eight members of the Board of Directors were independent directors, as defined by the applicable rules and regulations of the Nasdaq Stock Market, as follows:

Brian Choi, Chairman of the Board
Ernest E. Dow
Jason Hwang
Soo Hun Jung, M.D.
Ock Hee Kim
Myung Ja (Susan) Park
Yong Sin Shin

Board and Committee Meeting Attendance

During the fiscal year ended December 31, 2020, our Board of Directors held a total of 12 meetings. Each incumbent director who was a director during 2020 attended each such meeting and each meeting held by the standing committees of the Board on which such director served.

Director Attendance at Annual Meetings of Shareholders

The Board believes it is important for all directors to attend the Annual Meeting of Shareholders in order to show their support for the Company and to provide an opportunity for shareholders to communicate any concerns to them. The Company's policy is to encourage, but not require, attendance by each director at the Company's Annual Meeting of Shareholders. All of the directors of the Company are encouraged to attend the Annual Meeting of Shareholders and at the 2020 Annual Meeting of Shareholders all of our directors were in attendance.

Communications with the Board

Shareholders may communicate with the Board of Directors, including a committee of the Board or individual directors, by writing to the Corporate Secretary, OP Bancorp, 1000 Wilshire Boulevard, Suite 500, Los Angeles, CA 90017 or delivered via e-mail to christine.oh@myopenbank.com. Each communication from a shareholder should include the following information in order to permit shareholder status to be confirmed and to provide an address to forward a response if deemed appropriate:

- if the person submitting the communication is a security holder, a statement of the type and amount of the securities of the Company that the person holds;
- if the person submitting the communication is not a security holder and is submitting the communication to the non-management directors as an interested party, the nature of the person's interest in the Company;
- any special interest, meaning an interest not in the capacity of a shareholder of the Company, of the person in the subject matter of the communication; and
- the address, telephone number and e-mail address, if any, of the person submitting the communication.

Upon receipt, each communication shall be entered into an intake record maintained for this purpose, including the name of the person submitting the communication, the date and time of receipt of the communication, the information concerning the person submitting the communication required to accompany the communication and a brief statement of the subject matter of the communication. The record shall also indicate the action taken with respect to the communication. The Corporate Secretary or her personnel will review all communications to determine whether the communication satisfies the procedural requirements for submission and whether the substance of the communication is of a type that is appropriate for delivery to the Board of Directors under the criteria set forth in our procedures for communications with directors. Communications determined to be appropriate for delivery to directors, shall be assembled and delivered to the directors on a periodic basis. Our procedures regarding the handling of security holder communications were approved by a majority of our independent directors.

Nomination of Directors

The Company has a Nomination & Governance Committee. The duties of the Nomination & Governance Committee include the recommendation of candidates for election to the Company's Board of Directors.

The Nomination & Governance Committee's minimum qualifications for a director are persons of high ethical character who have both personal and professional integrity, which is consistent with the image and values of the Company. The Corporate Governance & Nominating Committee considers some or all of the following criteria in considering candidates to serve as directors:

- commitment to ethical conduct and personal and professional integrity as evidenced through the person's business associations, service as a director or executive officer or other commitment to ethical conduct and personal and professional integrity as evidenced organizations and/or education;
- objective perspective and mature judgment developed through business experiences and/or educational endeavors;
- the candidate's ability to work with other members of the Board and management to further the Company's goals and increase shareholder value;
- the ability and commitment to devote sufficient time to carry out the duties and responsibilities as a director;
- experience at policy making levels in various organizations and in areas that are relevant to the Company's activities;
- the skills and experience of the potential nominee in relation to the capabilities already present on the Board;

- broad experience in business, finance or administration, and familiarity with national and international business matters;
- familiarity with the commercial banking industry;
- prominence and reputation, and ability to enhance the reputation of the Company;
- activities and associations of each candidate to ensure that there is no legal impediment, conflict of interest, or other consideration that might hinder or prevent service on the Board;
- in considering diversity of the Board (in all aspects of the term) as a criteria for selecting nominees to the Board the committee shall take into account various factors and perspectives, including differences of viewpoint, high quality business and professional experience, education, skills and other individual qualities and attributes that contribute to Board heterogeneity, as well as race, gender and national origin; and
- consider the impact of a material change in qualifications of a director arising from the retirement or a change in the principal occupation, position or responsibility of a director as such a change relates to continued service on the Board.

The Nomination & Governance Committee does not have a separate policy for consideration of any director candidates recommended by shareholders. Instead, the Nomination & Governance Committee considers any candidate meeting the requirements for nomination by a shareholder set forth in the Company's Bylaws (as well as applicable laws and regulations) in the same manner as any other director candidate. The Nomination & Governance Committee believes that requiring shareholder recommendations for director candidates to comply with the requirements for nominations in accordance with the Company's Bylaws ensures that the Nomination & Governance Committee receives at least the minimum information necessary for it to begin an appropriate evaluation of any such director nominee.

Section 2.4 of the Company's Bylaws provides that any shareholder must give advance written notice to the Company of an intention to nominate a director at a shareholder meeting. Notice of intention to make any nominations must be made in writing and delivered to the Chief Executive Officer or President at the principal executive offices of the Company no more than 60 days prior to any meeting of shareholders called for the election of directors, and no more than 10 days after the date of notice of such meeting is sent to the shareholders, provided, however, that if only 10 days' notice of the meeting is given to shareholders such notice of intention to nominate shall be received by the Chief Executive Officer or President of the Company not later than the time fixed in the notice of meeting for the opening of the meeting.

Such notification shall contain the following information to the extent known to the notifying shareholder: (i) the name and address of each proposed nominee; (ii) the principal occupation of each proposed nominee; (iii) the number of shares of voting stock of the Company owned by each proposed nominee; (iv) the name and residence address of the notifying shareholder; and (v) the number of shares of voting stock of the Company owned by the notifying shareholder. Nominations not made in accordance with the Bylaws shall be disregarded by the chairman of the meeting, and the inspectors of election shall then disregard all votes cast for each such nominee.

Diversity of the Board of Directors

In considering diversity of the Board (in all aspects of that term) as a criteria for selecting nominees in accordance with its charter, the Nomination & Governance Committee takes into account various factors and perspectives, including differences of viewpoint, high quality business and professional experience, education, skills and other individual qualities and attributes that contribute to Board heterogeneity, as well as race, gender and national origin. The Committee does not assign specific weights to particular criteria and no particular criterion is necessarily applicable to all prospective nominees. The Committee seeks persons with leadership experience in a variety of contexts and industries. The Committee believes that this expansive conceptualization of diversity is the most effective means to implement Board diversity. The Nomination & Governance Committee will assess the effectiveness of this approach as part of its annual review of its charter.

Term of Office

Directors serve for a one-year term or until their successors are elected. The Board does not have term limits, instead preferring to rely upon the evaluation procedures described herein as the primary methods of ensuring that each director continues to act in a manner consistent with the best interests of the shareholders and the Company.

Board Committees

The Board may delegate portions of its responsibilities to committees of its members. These standing committees of the Board meet at regular intervals to attend to their particular areas of responsibility. These committees include: Audit Committee, the Human Resource & Compensation Committee, and the Nomination & Governance Committee. Each member of these committees is independent, as defined by the applicable rules and regulations of the Nasdaq Stock Market. The committee chair determines the agenda, the frequency and the length of the meetings and receives input from committee members.

Executive Sessions

Independent directors meet in executive sessions throughout the year including meeting annually to consider and act upon the recommendation of the Human Resource & Compensation Committee regarding the compensation and performance of the Chief Executive Officer.

Evaluation of Board Performance

A Board assessment and director self-evaluations are conducted annually in accordance with an established evaluation process and includes performance of committees. The Nomination & Governance Committee oversees this process and reviews the assessment and self-evaluation with the full Board.

Management Performance and Compensation

The Human Resource and Compensation Committee reviews and approves the Chief Executive Officer's evaluation of the top management team on an annual basis. The Board (largely through the Human Resource & Compensation Committee) evaluates the compensation plans for senior management and other employees to ensure they are appropriate, competitive and properly reflect the Company's objectives and performance.

Code of Business Conduct and Business Ethics Policy

Our Board of Directors has adopted a Code of Business Conduct and Business Ethics Policy that applies to all of our directors and employees. The code provides fundamental ethical principles to which these individuals are expected to adhere to and will operate as a tool to help our directors, officers and employees understand the high ethical standards required for employment by, or association with, our Company. Our Code of Business Conduct and Business Ethics Policy is available on our website at *www.myopenbank.com* under the "Investor Relations" tab. We expect that any amendments to the code, or any waivers of its requirements, will be disclosed on our website, as well as any other means required by Nasdaq Stock Market rules.

Reporting of Complaints/Concerns Regarding Accounting or Auditing Matters

The Company's Board of Directors has adopted procedures for receiving and responding to complaints or concerns regarding accounting and auditing matters. These procedures were designed to provide a channel of communication for employees and others who have complaints or concerns regarding accounting or auditing matters involving the Company.

Employee concerns may be communicated in a confidential or anonymous manner to the Audit Committee of the Board. The Audit Committee Chairman will make a determination on the level of inquiry, investigation or disposal of the complaint. All complaints are discussed with the Company's senior management and monitored by the Audit Committee for handling, investigation and final disposition. The Chairman of the Audit Committee will report the status and disposition of all complaints to the Board of Directors.

Item 11. Executive Compensation.

The following table sets forth information regarding the compensation paid, awarded to, or earned for our fiscal years ended December 31, 2020 and 2019 for each of our named executive officers.

Name and Principal Position	Year	Salary ($)	Non Equity Incentive Plan Compensation (1)	Other Compensation ($) (4)	Total Compensation ($)
Min J. Kim	2020	$ 493,800	$ 510,000	$ 19,500	$ 1,023,300
President and Chief Executive Officer	2019	$ 486,858	$ 474,000	$ 23,400	$ 984,258
Christine Y. Oh	2020	$ 285,000	$ 130,000	$ 19,500	$ 434,500
Executive Vice President and Chief Financial Officer	2019	$ 280,625	$ 121,000	$ 22,038	$ 423,663
Steve K. Park (2)	2020	$ 237,500	$ —	$ 318,992	$ 556,492
Executive Vice President and Chief Credit Officer	2019	$ 280,625	$ 119,000	$ 22,038	$ 421,663
Sang K. Oh (3)	2020	$ 40,720	$ —	$ 391	$ 41,111
Executive Vice President and Chief Credit Officer					

(1) Cash bonuses awarded under the Company's Management Incentive Plan, described below. Amounts for 2020 were determined and paid in March 2021 for fiscal year of 2020.
(2) Steve K. Park, as Executive Vice President and Chief Credit Officer, resigned the Bank in October 2020.
(3) Sang K. Oh, as Executive Vice President and Chief Credit Officer, joined the Bank in October 2020.
(4) Other Compensation for the named executive officers for our fiscal year ended December 31, 2020 includes the following:

Name	Perquisites (i)	Company 401(k) Match (ii)	Other (iii)	Total "Other Compensation"
Min J. Kim	$ 2,400	$ 17,100	$ —	$ 19,500
Christine Y. Oh	$ 2,400	$ 17,100	$ —	$ 19,500
Steve K. Park	$ 2,000	$ 14,250	$ 302,742	$ 318,992
Sang K. Oh	$ 391	$ —	$ —	$ 391

(i) Amounts reflect cell phone allowance
(ii) Amounts reflect Company matching contribution under the 401(k) Plan.
(iii) Amounts reflect separation payment of $285,000, accrued paid time off payout of $16,161, and the Company paid COBRA payment of $1,581 for the months of November and December 2020.

General

We compensate our named executive officers through a combination of base salary, annual bonuses, equity awards, and other benefits including perquisites. Our Human Resources & Compensation Committee, sometimes referred to as the HRCC, believes the executive compensation packages that we provide to our executives, including the named executive officers, should include both cash and equity compensation that reward performance as measured against established corporate goals. Each element of compensation is designed to achieve a specific purpose and to contribute to a total package that is competitive with similar packages provided by other institutions that compete for the services of individuals like our named executive officers.

2020 Risk Assessment

Each year, the Company performs a risk analysis of each of its compensation programs. If warranted, the HRCC will recommend changes to address concerns or considerations raised in the risk review process. Changes may be recommended for the program design or its oversight and administration in order to mitigate unreasonable risk, if any is determined to exist. The HRCC has concluded that the Company's compensation arrangements do not encourage any employees to take unnecessary and excessive risks. We do not believe that any risks arising from our compensation policies and practices are reasonably likely to have a material adverse effect on the Company.

Chief Executive Officer Agreement

On November 1, 2017, we entered into an employment agreement with Ms. Kim, our President and Chief Executive Officer. The agreement provides for an initial three-year term and automatically renewal each subsequent year for a one-year term thereafter unless terminated by either party upon 45 days written notice prior to the end of the then-current term. Under the terms of the agreement, Ms. Kim was initially entitled to an annual base salary of $410,000 subject to annual minimum increases of 3%, the actual amount as determined by the Board of Directors' annual review of executive salaries. Her salary was last increased to $493,800 in April 2019. In addition to her salary, she is eligible to participate in the annual Management Incentive Plan, and will be entitled to equity award grants in accordance with the Company's equity incentive plans and as approved by the Board of Directors. The Company provides Ms. Kim, at the same level of cost to other employees, group life, health, accident and disability insurance coverage for herself and her dependents. She is entitled to six weeks paid vacation annually. She received an automobile allowance in the amount of $1,200 per month in 2018 and for the first quarter of 2019. Effective April 2019, the monthly automobile allowance in the amount of $1,200 was rolled into Ms. Kim's base salary. If Ms. Kim's employment is terminated without Cause she will be entitled to 175% of her base salary paid over a period of 12 months and the Company will pay her COBRA health insurance premiums for 12 months. If Ms. Kim's employment is terminated by the Company without Cause or she resigns for Good Reason within six months before or two years after a Change in Control, she will be paid 225% of her base salary over 12 months and the Company will pay her COBRA health insurance premiums for 24 months. The agreement provides that if any payments to Ms. Kim are limited by Section 280G of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code" or the "Code"), our obligations will be limited to such amounts that results in the greatest amount of the payment that is deductible for federal minimum tax purposes after taking into account all other compensation payments to or for the benefit of Ms. Kim that are included in determining the deductibility of such payments under Section 280G. The agreement contains a non-solicitation provision, whereby Ms. Kim may not solicit the Company's employees for two years after the termination of her employment.

For purposes of Ms. Kim's contract the following terms are defined as follows:

"Cause" means: (i) the willful and continuing failure to perform her obligations to the Company; (ii) the conviction of, or plea of nolo contendere to, a crime of embezzlement or fraud or any felony under the laws of the United States or any state thereof; (iii) the breach of fiduciary responsibility; (iv) an act of dishonesty that is injurious to the Company; (v) engagement in one or more unsafe or unsound banking practices that has an adverse effect on the Company; (vi) removal or permanent suspension from banking pursuant to regulatory and other applicable state or federal laws; (vii) an act or omission that leads to a harm (financial or reputational or otherwise) to the Company; or (viii) a material breach of Company policies as may be in effect from time to time.

"*Change in Control*" means the first to occur of (a) the consummation of the acquisition by any "person" (as such term is defined in Section 13(d) or 14(d) of the Exchange Act) of "beneficial ownership" (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of more than fifty percent (50%) of the combined voting power of the then outstanding voting securities of the Company; or (b) the consummation by the Company of: (i) a merger, consolidation, or similar transaction if the Company's shareholders immediately before such merger or consolidation do not, as a result of such merger or consolidation, own, directly or indirectly, more than fifty percent (50%) of the combined voting power of the then outstanding voting securities of the entity resulting from such merger, consolidation or similar transaction in substantially the same proportion as their ownership of the combined voting power of the voting securities of the Company outstanding immediately before such merger or consolidation; or (ii) a complete liquidation or dissolution of, or an agreement for the sale or other disposition of all or substantially all of the assets of, the Company (including a transaction described in clause (a) or (b) as if applicable to the Bank or a sale of substantially all of the Bank's assets). Notwithstanding any provision of this definition to the contrary, a

Change in Control shall not be deemed to have occurred solely because more than fifty percent (50%) of the combined voting power of the then outstanding securities of the Company are acquired by (i) a trustee or other fiduciary holding securities under one or more employee benefit plans maintained by the Company or an affiliate thereof or (ii) any corporation that, immediately prior to such acquisition, is owned directly or indirectly by the Company's shareholders in the same proportion as their ownership of "Voting Securities" immediately prior to such acquisition. Further, notwithstanding any provision of this definition to the contrary, in the event that any amount or benefit under the agreement constitutes deferred compensation under the Section 409A of the Internal Revenue Code and the settlement of or distribution of such amount or benefit is to be triggered by a change in control, then such settlement or distribution shall be subject to the event constituting the change in control also constituting a "change in control event" (as defined in Section 409A).

"*Good Reason*" means the occurrence of any one of the following events, unless Ms. Kim agrees in writing that such event shall not constitute "Good Reason": (i) a material, adverse change in the nature, scope, or status of Ms. Kim's position, authorities, or duties from those in effect immediately prior to the applicable change in control; (ii) a material reduction in her aggregate compensation or benefits in effect immediately prior to the applicable Change in Control; or (iii) a relocation of Ms. Kim's primary place of employment of more than fifty (50) miles from the her primary place of employment immediately prior to the applicable Change in Control. Prior to the Ms. Kim's termination of service for Good Reason, Ms. Kim must give the Company written notice of the existence of the condition that gives rise to an event of a Good Reason within 90 days of its occurrence and then the Company has 30 days to cure the situation.

Management Incentive Plan

The Company offers eligible executives an opportunity to earn cash bonuses in addition to their annual base salaries. Each year the management incentive plan ("Management Incentive Plan") is reviewed and approved by the HRCC. The Management Incentive Plan for 2020 and 2019 provides an opportunity for the executive officers and key employees to earn a bonus up to their designated percentage cap based on their base salary. The limits were up to 125% of the annual base salary for the President and Chief Executive Officer and up to 55% of their annual base salary for the other executive officers.

Specific bonuses payouts are recommended by the President and Chief Executive Officer to the HRCC. The HRCC reviews the recommendations and, based on its evaluation, recommends the final bonus amounts paid. In addition, the Board has the discretion to approve any additional cash bonuses as they deem appropriate and in line with the profits and the growth of the Company. However, no eligible executive would receive a bonus if less than 80% of his or her individual performance goals set forth in the Management Incentive Plan were achieved, and/or the return on assets ("ROA") for the Plan Year is less than 1%. The availability of bonuses and the amounts earned is based on various metrics approved by the HRCC. These metrics may change from year to year.

For 2020, the President and Chief Executive Officer and the other executive officers were each assigned Bank Goals and Individual Goals with different weight allocations. The Bank Goals consisted of achieving three financial targets: ROA of 1.00%, return on equity ("ROE") of 8.90% and an efficiency ratio of 60.78%. The Individual Goals were customized to each individual's respective responsibilities. For the President and Chief Executive Officer and the other executive officers the weight allocation was 70% in Bank Goals and 30% in Individual Goals. In 2020, our ROA was 1.03%, ROE was 9.35%, and the efficiency ratio was 56.90%. Based on the Bank and Individual performance, the HRCC determined that Ms. Kim should receive a bonus amount of $510,000, equal to 103% of her annual base salary for 2020, and Ms. Oh should receive $130,000, equal to 46% of her annual base salary for 2020.

For 2019, the President and Chief Executive Officer and the other executive officers were each assigned Bank Goals and Individual Goals with different weight allocations. The Bank Goals consisted of achieving three financial targets: ROA of 1.24%, ROE of 10.56% and an efficiency ratio of 58%. The Individual Goals were customized to each individual's respective responsibilities. For the President and Chief Executive Officer and the other executive officers the weight allocation was 70% in Bank Goals and 30% in Individual Goals. In 2019, our ROA was 1.40%, ROE was 11.51%, and the efficiency ratio was 59.70%. Based on the Bank and Individual performance, the HRCC determined that Ms. Kim should receive a bonus amount of $474,000, equal to 96% of her annual base salary for 2019, Ms. Oh should receive $121,000, equal to 42.5% of her annual base salary for 2019, and Mr. Park should receive $119,000, equal to 41.8% of his annual base salary for 2019.

Benefits and Other Perquisites

The named executive officers are eligible to participate in the same benefit plans designed for all of our full-time employees, including health, dental, vision, disability and basic group life insurance coverage. We also provide our employees, including our named executive officers, with various retirement benefits. Our retirement plans are designed to assist our employees in planning for retirement and securing appropriate levels of income during retirement. The purpose of our retirement plans is to attract and retain quality employees, including executives, by offering benefit plans similar to those typically offered by our competitors.

Open Bank Employee's 401(k) Plan. The Open Bank Employee's 401(k) Plan is designed to provide retirement benefits to all eligible full-time and part-time employees of the Company and its subsidiary. The 401(k) Plan provides employees with the opportunity to save for retirement on a tax-favored basis. Named executive officers, all of whom were eligible during 2020, may elect to participate in the 401(k) Plan on the same basis as all other employees. Employees may defer 1% to 100% of their compensation to the 401(k) Plan up to the applicable IRS limit. We currently match employee contributions on the first 6% of employee compensation ($1 for each $1). The Company match is contributed in the form of cash and is invested according to the employee's current investment allocation. No discretionary profit sharing contribution was made to the 401(k) Plan for 2020 or 2019.

Bank Owned Life Insurance or BOLI Policies. In 2014, the Company purchased single premium BOLI Policies for certain executives and senior officers of the Company and to use the income from the BOLI Policies to offset benefit expenses. Further, the Company benefits from any future death benefits paid out under these BOLI Policies. The Company entered into arrangements with certain executive and senior officers to pay their beneficiaries a death benefit. The amount of the arrangement for executive officers was equal to 20% of the net amount of insurance, and for senior officers between 10% and 15% of the net amount of insurance. If the officer or director retires or is terminated, the arrangement terminates.

Health and Welfare Benefits. Our named executive officers are eligible to participate in our standard health and welfare benefits program, which offers medical, dental, vision, life, accident, and disability coverage to all of our eligible employees. We do not provide the named executive officers with any health and welfare benefits that are not generally available to our other employees.

Perquisites. We provide our named executive officers with certain perquisites that we believe are reasonable and consistent with our overall compensation program to better enable us to attract and retain superior employees for key positions. The HRCC periodically reviews the levels of perquisites and other personal benefits provided to named executive officers. Based on this periodic review, perquisites are awarded or adjusted on an individual basis. The perquisites received by our named executive officers in 2020 included a cell phone allowance.

Executive Change in Control Plan

In connection with our initial public offering, our Board of Directors adopted an Executive Change in Control Plan, or Severance Plan. Participants in the Severance Plan are selected by the HRCC and the Board of Directors. Our Chief Executive Officer is not eligible to participate in the Severance Plan. If a participant in the Severance Plan is terminated without cause or resigns for a "good reason" within a determined period of time before or following a "change in control", the participant will be paid an individually determined severance amount and benefits. Upon termination of the participant's employment in a manner that results in severance to the participant under the Severance Plan, the participant agrees not to solicit employees and not solicit customers to terminate their relationships with the Company for a period of one year.

Ms. Christine Oh is a participant in the Severance Plan. If she is terminated without cause within six months before or 12 months after a change in control (the "change in control period") or she resigns for good reason during the change in control period, she would be entitled to 150% her base salary and the Company will pay her COBRA health insurance premiums for 12 months.

The terms "cause," "change in control" and "good reason" have substantially the same meanings as provided in Ms. Min J. Kim's employment agreement, as described above.

Equity Based Plans

2010 Equity Incentive Plan

On August 19, 2010, the shareholders of Open Bank approved the 2010 Equity Incentive Plan (the "2010 Plan"). The 2010 Plan was amended by the Board and shareholders of Open Bank in 2013 to increase the number of authorized shares for issuance from 1,350,000 shares to 2,500,000 shares of common stock. In June 2016, OP Bancorp assumed the 2010 Plan in connection with the formation of the bank holding company. The purpose of the 2010 Plan is to advance the interest of the Company and its shareholders by providing an incentive to attract, retain and reward key employees, officers (whether or not directors) and non-employee directors of the Company and/or the Bank and by motivating such persons to contribute to the growth and profitability of the Company.

The shares of common stock are authorized and reserved for issuance for equity awards including stock options and restricted stock units. Option exercise prices are the fair market value of the underlying stock as of the grant date. Restricted stock units are valued at the fair market value on the date of grant. As of December 31, 2020, we had options outstanding to purchase a total of 190,000 shares of our common stock under the 2010 Plan, at an average exercise price of $7.71 per share, and 154,500 restricted stock units at an average issue price of $11.66 were outstanding. The 2010 Plan expired in August 2020 and no future grants can be made under the 2010 Plan.

2005 Director and Employee Stock Option Plan

On February 10, 2005, the Board of Directors of Open Bank adopted and on December 21, 2005 shareholders of Open Bank approved the Director and Employee Stock Option Plan (the "2005 Plan"). In June 2016, OP Bancorp assumed the 2005 Plan in connection with the formation of the bank holding company. The 2005 Plan provided for the issuance of up to 770,000 shares of common stock. Option exercise prices were the fair market value of the underlying stock as of the grant date. Options granted to employees vest at the rate of 20% per year. The 2005 Plan expired in February of 2015 and no future grants can be made under the 2005 Plan.

As of December 31, 2020, the Company had options outstanding to purchase a total of 100,000 shares of common stock under the 2005 Plan, at an average exercise price of $5.77 per share.

Outstanding Equity Awards

The following table provides information for each of our named executive officers regarding outstanding stock options held by the officers as of December 31, 2020.

	Option Awards				Stock Awards	
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#) (1)	Market Value of Shares or Units of Stock That Have Not Vested ($) (2)
Min J. Kim	180,000	30,000 (3)	$ 8.00	4/1/2024	10,000	$ 77,000
Christine Y. Oh	—	—	—	—	10,000	$ 77,000

(1) This column represents the unvested restricted stock units granted. With regard to 10,000 restricted stock units for Ms. Kim, restricted stock units vest 1/7th per year from the date of grant of April 1, 2014, subject to continuing service. With regard to 10,000 restricted stock units for Ms. Oh, restricted stock units vest at the end of three years from the date of grant of June 21, 2018, subject to continuing service.

(2) The market value of the shares of restricted stock units that have not vested is calculated by multiplying the number of shares of stock underlying the restricted stock units that have not vested by the closing price of our common stock at December 31, 2020.

(3) This option vests at the rate of 30,000 shares each April 1, subject to continuing service.

Director Compensation

The following table sets forth compensation paid or awarded to, or earned by, each of our directors (except for Min J. Kim, whose compensation is disclosed under "—Summary Compensation Table") during 2020. Officers earn no additional compensation for director service.

Name	Fees Earned or Paid in Cash ($) (1)
Brian Choi	$ 82,000
Ernest E. Dow	$ 59,000
Jason Hwang	$ 59,000
Soo Hun Jung, M.D.	$ 59,000
Ock Hee Kim	$ 59,000
Myung Ja (Susan) Park	$ 59,000
Yong Sin Shin	$ 59,000

(1) Excludes reimbursement for traveling and other expenses and stock-based expenses relating to equity awards granted in prior years under our equity plans.

The Company paid fees to the non-officer directors for attendance at Board of Directors and Board of Directors' committee meetings or for performing other services in connection with operation of the Company. The Chairman of the Board received $7,000 per month and all other directors received $5,000 per month. In 2020, the Board had the Company to donate $8,000 from their fees to two non-profit organizations to support families impacted by the COVD-19 pandemic. Directors receive reimbursement for their out-of-pocket expenses incurred in connection with their duties as directors, including their attendance at director meetings.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Beneficial Ownership of Common Stock

The following table sets forth information as of December 31, 2020, pertaining to beneficial ownership of the Company's common stock by persons known to the Company to own 5% or more of the Company's common stock, nominees to be elected to the Board of Directors, the executive officers named in the Summary Compensation Table presented in this proxy statement, and all directors and executive officers of the Company, as a group. This information has been obtained from the Company's records, or from information furnished directly by the individual or entity to the Company.

For purposes of the following table, shares issuable pursuant to stock options which may be exercised within 60 days of December 31, 2020, are deemed to be issued and outstanding and have been treated as outstanding in determining the amount and nature of beneficial ownership and in calculating the percentage of ownership of those individuals possessing such interest, but not for any other individuals.

Name of Beneficial Owner (1)	Shares Beneficially Owned (2) (3)		Percent of Class (3)
Directors and Executive Officers:			
Brian Choi	950,000		6.33%
Min J. Kim	562,737	(4)	3.70%
Yong Sin Shin	478,000		3.18%
Ock Hee Kim	429,700		2.86%
Ernest E. Dow	233,044		1.55%
Soo Hun Jung, M.D.	229,438		1.53%
Jason Hwang	148,055		0.99%
Christine Y. Oh	130,873		0.87%
Myung Ja (Susan) Park	101,659		0.68%
All directors and executive officers as a group (11 individuals)	3,381,222	(5)	22.18%
BlackRock Inc.	845,375	(6)	5.63%
Manulife Financial Corporation	831,401	(7)	5.54%

(1) Except as otherwise noted, the address for all persons is c/o OP Bancorp, 1000 Wilshire Boulevard, Suite 500, Los Angeles, California 90017.

(2) Subject to applicable community property laws and shared voting and investment power with a spouse, the persons listed have sole voting and investment power with respect to such shares unless otherwise noted.

(3) Includes shares beneficially owned (including options exercisable and restricted stock units vesting within 60 days of December 31, 2020).

(4) Consists of 382,737 shares held by Ms. Kim individually, 180,000 shares that are subject to options that are currently exercisable or are exercisable within 60 days of December 31, 2020.

(5) Includes 230,000 shares that are subject to options that are currently exercisable or are exercisable within 60 days of December 31, 2020.

(6) Represents the number of common shares beneficially owned by BlackRock, Inc. The address of BlackRock, Inc. is 55 East 52nd Street, New York, New York 10055. The foregoing information has been obtained from the shareholder's Schedule 13G filed with the SEC on February 2, 2021.

(7) Represents the number of common shares beneficially owned by Manulife Financial Corporation ("MFC") and MFC's indirect, wholly-owned subsidiaries, Manulife Investments (US) LLC ("MIM (US)") and Manulife Investment Management Limited ("MIML"). The address of MFC and MIMIL is 200 Bloor Street East, Toronto, Ontario, Canada, M4W 1E5 and the address of MIM (US) is 197 Clarendon Street, Boston, Massachusetts 02116. The foregoing information has been obtained from the shareholder's Schedule 13G filed with the SEC on February 3, 2021.

The following table summarizes our equity compensation plans as of December 31, 2020:

Securities Authorized for Issuance Under Equity Compensation Plans

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in Column (a) (c)
Equity compensation plans approved by security holders	474,500	$ 8.61	—
Equity compensation plans not approved by security holders	—	$ —	—
Total	474,500	$ 8.61	—

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Policy and Procedures Regarding Related Party Transactions

Our Board of Directors has adopted a written Statement of Policy with Respect to Related Party Transactions. Under this policy, any "related party transaction" may be consummated or may continue only if the Audit Committee approves or ratifies the transaction in accordance with the guidelines in the policy and if the transaction is on terms comparable to those that could be obtained in arm's length dealings with an unrelated third party. For purposes of this policy, a "related person" means: (i) any person who is, or at any time since the beginning of the Company's last fiscal year was, a director or executive officer of the Company or a nominee to become a director of the Company; (ii) any person who is known to be the beneficial owner of more than 5% of any class of the Company's voting securities; (iii) any immediate family member of any of the foregoing persons, which means any child, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law of the director, executive officer, nominee or more than 5% beneficial owner, and any person (other than a tenant or employee) sharing the household of such director, executive officer, nominee or more than 5% beneficial owner; and (iv) any firm, corporation or other entity in which any of the foregoing persons is employed or is a partner, principal or in a similar position, or in which such person has a 10% or greater beneficial ownership interest.

A "related party transaction" is a transaction in which the Company or its subsidiary is a participant and in which a related person had or will have a direct or indirect interest, other than transactions involving: (i) less than $5,000 when aggregated with all similar transactions; (ii) customary bank deposits and accounts (including certificates of deposit); and (iii) loans and commitments to lend included in such transactions that are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing for comparable transactions with other persons of similar creditworthiness, and do not involve more than the normal risk of collectability or present other unfavorable features to the Company.

A related party who has a position or relationship with a firm, corporation, or other entity that engaged in a transaction with the Company shall not be deemed to have an indirect material interest within the meaning of this policy where the interest in the transaction arises only: (i) from such related party's position as a director of another corporation or organization that is party to the transaction; (ii) from the direct or indirect ownership by the related party of less than a 10% equity interest in another person (other than a partnership) which is a party to the transaction; or (iii) from the related party's position as a limited partner in a partnership in which the related party has an interest of less than 10%, and the related party is not a general partner of and does not hold another position in the partnership.

The Board of Directors has determined that the Audit Committee is best suited to review and approve related party transactions. The Committee considers all of the relevant facts and circumstances available to the Committee, including (if applicable) but not limited to: (i) the benefits to the Company; (ii) the impact on a director's independence in the event the related person is a director, an immediate family member of a director or an entity in which a director is a partner, shareholder or executive officer; (iii) the availability of other sources for comparable products or services; (iv) the terms of the transaction; and (v) the terms available to unrelated third parties or to employees generally. No member of the Audit Committee may participate in any review, consideration or approval of any related person transaction with respect to which such member or any of his or her immediate family members is the related person. The Committee will approve only those related person transactions that are in, or are not inconsistent with, the best interests of the Company and its shareholders, as the Committee determines in good faith. The Audit Committee will convey its decision to the Board of Directors. The Chief Executive Officer will convey the decision to the appropriate persons within the Company.

Ordinary Banking Relationships

Certain of our officers, directors and principal shareholders, as well as their immediate family members and affiliates, are customers of, or have or have had transactions with us in the ordinary course of business. These transactions include deposits, loans and other financial services related transactions. Related party transactions are made in the ordinary course of business, on substantially the same terms, including interest rates and collateral (where applicable), as those prevailing at the time for comparable transactions with persons not related to us, and do not involve more than normal risk of collectability or present other features unfavorable to us. Any loans we originate with officers, directors and principal shareholders, as well as their immediate family members and affiliates, are approved by our Board of Directors in accordance with the bank regulatory requirements.

As of December 31, 2020, our officers and directors as well as their immediate families and affiliated companies, taken as a group, were not indebted directly or indirectly to us, while deposits from this group totaled $1.5 million as of such date. We expect to continue to enter into transactions in the ordinary course of business on similar terms with our officers, directors and principal shareholders, as well as their immediate family members and affiliates.

Open Stewardship Foundation

In 2011, the Open Stewardship Foundation, a non-profit organization, was created to actively support civic organizations, schools and other eligible charitable non-profit organizations that provide public benefit services in the communities we serve. We have committed to fund the Foundation in an amount equal to 10% of our consolidated annual income after taxes each year. We also permit the Foundation to use our premises for activities on behalf of non-profit organizations. This commitment is included in our annual operating budget each year and the Board of Directors and management believe that such activities have benefited us through stronger and expanded business relationships within the Korean-American community. Since inception, we have donated over $6.1 million to the Foundation, aiding over 190 local non-profits. The Foundation's Board of Directors is comprised of five of our directors, Brian Choi, Ernest E. Dow, Min J. Kim, Ock Hee Kim, and Myung Ja (Susan) Park. Our Chief Financial Officer serves as the president of the Foundation. Our directors and officers receive no additional compensation for their service at the Foundation. The Board of Directors of the Foundation maintains a selection committee that is responsible for reviewing and recommending grant applications from local nonprofits. The selection committee has four members annually selected by the Foundation Board of Directors, which is traditionally comprised of Min J. Kim and three customers of Open Bank. We do not control the Foundation's activities, and accordingly, we do not consolidate the financial statements of the Foundation.

Other Related Party Transactions

Other than the compensation arrangements with directors and executive officers described in "Executive Compensation" and the ordinary banking relationships described above, none of our directors, executive officers or beneficial holders of more than 5% of our capital stock, or their immediate family members or entities affiliated with them, had or will have a direct or indirect material interest, in any transactions to which we have been a party.

Item 14. Principal Accounting Fees and Services.

The following table summarizes the aggregate fees billed to the Company by its independent auditor:

Category of Services	Fiscal Year 2020	Fiscal Year 2019
Audit fees (1)	$ 410,717	$ 402,750
Audit-related fees	—	—
Tax fees (2)	52,367	34,526
All other fees	—	—
Total accounting fees	$ 463,084	$ 437,276

(1) Audit fees relate to professional services rendered in connection with the audit of the Company's annual financial statements, quarterly review of financial statements included in the Company's Quarterly Reports on Form 10-Q, and audit services provided in connection with other statutory and regulatory filings.
(2) Tax fees were related to tax services provided to Company, including annual Federal and State tax return, quarterly tax estimates, and any assistance, review, or resolution of tax notice.

The ratio of Tax fees and All other fees to Total accounting fees was 11.3% for 2020 and 7.9% for 2019.

In considering the nature of the services provided by the independent registered public accounting firm, the Audit Committee determined that such services are compatible with the provision of independent audit services. The Audit Committee discussed these services with the independent registered public accounting firm and Company management to determine that they are permitted under the rules and regulations concerning auditor independence promulgated by the SEC and the Public Company Accounting Oversight Board.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a)(1) Financial Statements: The financial statements listed under Part II-Item 8. “Financial Statements and Supplementary Data” are filed as part of this Item 15 of this 10-K.

(a)(2) Financial Statement Schedules: All financial statement schedules have been omitted as such the required information is not applicable or has been included in the Financial Statements and related notes.

(a)(3) List of Exhibits: The exhibits required by Item 601 of Regulation S-K are included under Item 15(b) below.

(b) Exhibits

Exhibit Number	Description
3.1	Articles of Incorporation of OP Bancorp (incorporated herein by reference to Exhibit 3.1 to the Registrant's Form S-1 Registration Statement (Registration No. 333-223444) filed on March 5, 2018)
3.2	Amended and Restated Bylaws of OP Bancorp (incorporated herein by reference to Exhibit 3.2 to the Registrant's Form S-1 Registration Statement (Registration No. 333-223444) filed on March 5, 2018)
3.3	First Amendment to the Amended and Restated Bylaws of OP Bancorp
4.1	Specimen common stock certificate of OP Bancorp (incorporated herein by reference to Exhibit 4.1 to the Registrant's Form S-1 Registration Statement (Registration No. 333-223444) filed on March 5, 2018)
4.2	Description of Securities Registered under Section 12 of Securities Exchange Act of 1934, as amended (incorporated herein by reference to Exhibit 4.2 to the Registrant's Annual Report on Form 10-K (File No. 001-38437) filed on March 16, 2020)
10.1*	Employment Agreement, dated November 1, 2017, between OP Bancorp and Min J. Kim (incorporated herein by reference to Exhibit 10.1 to the Registrant's Form S-1 Registration Statement (Registration No. 333-223444) filed on March 5, 2018)
10.2*	Employment Offer Letter, dated June 10, 2010, from First Standard Bank to Christine Oh (incorporated herein by reference to Exhibit 10.2 to the Registrant's Form S-1 Registration Statement (Registration No. 333-223444) filed on March 5, 2018)
10.3*	Employment Offer Letter, dated September 9, 2013, from First Standard Bank to Ki Won Yoon (incorporated herein by reference to Exhibit 10.4 to the Registrant's Form S-1 Registration Statement (Registration No. 333-223444) filed on March 5, 2018)
10.4*	Employment Offer Letter, dated April 27, 2010, from First Standard Bank to Kathrine Duncan (incorporated herein by reference to Exhibit 10.5 to the Registrant's Form S-1 Registration Statement (Registration No. 333-223444) filed on March 5, 2018)
10.5*	2010 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.6 to the Registrant's Form S-1 Registration Statement (Registration No. 333-223444) filed on March 5, 2018)
10.6*	First Amendment to the 2010 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.7 to the Registrant's Form S-1 Registration Statement (Registration No. 333-223444) filed on March 5, 2018)
10.7*	Form of Stock Option Award under the 2010 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.8 to the Registrant's Form S-1 Registration Statement (Registration No. 333-223444) filed on March 5, 2018)
10.8*	Form of Restricted Stock Unit Agreement under the 2010 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.9 to the Registrant's Form S-1 Registration Statement (Registration No. 333-223444) filed on March 5, 2018)

10.9*	2005 Director and Employee Stock Option Plan (incorporated herein by reference to Exhibit 10.10 to the Registrant's Form S-1 Registration Statement (Registration No. 333-223444) filed on March 5, 2018)
10.10*	Form of Stock Option Award under the 2005 Director and Employee Stock Option Plan (incorporated herein by reference to Exhibit 10.11 to the Registrant's Form S-1 Registration Statement (Registration No. 333-223444) filed on March 5, 2018)
10.11*	OP Bancorp 2017 Management Incentive Plan (incorporated herein by reference to Exhibit 10.12 to the Registrant's Form S-1 Registration Statement (Registration No. 333-223444) filed on March 5, 2018)
10.12*	OP Bancorp Change in Control Severance Plan (incorporated herein by reference to Exhibit 10.13 to the Registrant's Form S-1 Registration Statement (Registration No. 333-223444) filed on March 5, 2018)
10.13*	Form of Indemnification Agreement entered into with all of the directors and executive officers of OP Bancorp (incorporated herein by reference to Exhibit 10.14 to the Registrant's Form S-1 Registration Statement (Registration No. 333-223444) filed on March 5, 2018)
10.14	Coexistence Agreement with Open Bank S.A. (incorporated herein by reference to Exhibit 10.15 to the Registrant's Form S-1 Registration Statement (Registration No. 333-223444) filed on March 5, 2018)
10.15*	Employment Offer Letter, dated September 24, 2020, from Open Bank to Sang Kyo Oh (incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-38437) filed on October 1, 2020)
10.16	Asset Purchase Agreement, dated January 28, 2021, by and between Open Bank and Hana Small Business Asset Lending, Inc. (incorporated herein by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K/A (File No. 001-38437) filed on February 5, 2021)
21.1	Subsidiaries of OP Bancorp (incorporated herein by reference to Exhibit 21.1 to the Registrant's Form S-1 Registration Statement (Registration No. 333-223444) filed on March 5, 2018)
23.1	Consent of Crowe LLP
24.1	Power of Attorney (incorporated by reference to the signature page of this Annual Report on Form 10-K)
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Indicates management contract or compensatory plan or arrangement

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized**.**

OP Bancorp

Date: March 15, 2021

By: /s/ MIN J. KIM

Min J. Kim
President and Chief Executive Officer

POWER OF ATTORNEY AND SIGNATURES

KNOW ALL PERSONS BY THESE PRESENT, that each person whose signature appears below constitutes and appoints each of Min J. Kim and Christine Y. Oh, his or her attorney-in-fact, each with the power of substitution, for him or her in any and all capacities, to sign any amendments to this Annual Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that said attorney-in-fact, or his or her substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Signature/Name	**Title**	**Date**
/s/ MIN J. KIM Min J. Kim	President and Chief Executive Officer	March 15, 2021
/s/ CHRISTINE Y. OH Christine Y. Oh	Executive Vice President & Chief Financial Officer	March 15, 2021
/s/ BRIAN CHOI Brian Choi	Director	March 15, 2021
/s/ ERNEST E. DOW Ernest E. Dow	Director	March 15, 2021
/s/ JASON HWANG Jason Hwang	Director	March 15, 2021
/s/ SOO HUN JUNG Soo Hun Jung	Director	March 15, 2021
/s/ OCK HEE KIM Ock Hee Kim	Director	March 15, 2021
/s/ MYUNG JA (SUSAN) PARK Myung Ja (Susan) Park	Director	March 15, 2021
/s/ YONG SIN SHIN Yong Sin Shin	Director	March 15, 2021

Report of Independent Registered Public Accounting Firm

Shareholders and the Board of Directors of OP Bancorp and subsidiary
Los Angeles, California

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of OP Bancorp and subsidiary (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Crowe LLP

We have served as the Company's auditor since 2010.

Costa Mesa, California
March 15, 2021

OP BANCORP AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2020 AND 2019

	December 31, 2020	December 31, 2019
	(Dollars in thousands, except share data)	
ASSETS		
Cash and cash equivalents	$ 106,405	$ 86,036
Securities available for sale, at fair value	91,791	56,549
Other investments	10,006	9,176
Loans held for sale	26,659	2,100
Loans receivable, net of allowance of $15,352 at December 31, 2020 and $10,050 at December 31, 2019	1,084,384	980,088
Premises and equipment, net	4,544	5,226
Accrued interest receivable, net of allowance of $643 at December 31, 2020	3,985	3,166
Servicing assets	7,360	7,024
Company owned life insurance (COLI)	10,879	10,618
Deferred tax assets	5,242	3,189
Operating right-of-use assets	6,786	8,254
Other assets	8,785	8,094
Total assets	$ 1,366,826	$ 1,179,520
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Noninterest bearing	$ 522,754	$ 294,281
Interest bearing:		
Money market and others	328,323	296,618
Time deposits greater than $250,000	200,210	213,345
Other time deposits	148,803	216,467
Total deposits	1,200,090	1,020,711
Federal Home Loan Bank advances	5,000	—
Accrued interest payable	1,021	2,686
Operating lease liabilities	8,429	10,126
Other liabilities	8,920	5,421
Total liabilities	1,223,460	1,038,944
Shareholders' equity		
Preferred stock – no par value; 10,000,000 shares authorized; no shares issued or outstanding at December 31, 2020 and December 31, 2019	—	—
Common stock – no par value; 50,000,000 shares authorized; 15,016,700 and 15,703,276 shares issued and outstanding at December 31, 2020 and December 31, 2019, respectively	78,657	86,381
Additional paid-in capital	8,521	7,524
Retained earnings	55,348	46,483
Accumulated other comprehensive income	840	188
Total shareholders' equity	143,366	140,576
Total liabilities and shareholders' equity	$ 1,366,826	$ 1,179,520

See accompanying notes to consolidated financial statements

OP BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2020, 2019, AND 2018

	Years ended December 31,		
	2020	2019	2018
	(Dollars in thousands, except share data)		
Interest income			
Interest and fees on loans	$ 51,829	$ 55,720	$ 48,108
Interest on securities available for sale	1,177	1,353	985
Other interest income	650	1,706	975
Total interest income	53,656	58,779	50,068
Interest expense			
Interest on deposits	8,292	14,507	8,964
Interest on borrowed funds	-	-	147
Total interest expense	8,292	14,507	9,111
Net interest income	45,364	44,272	40,957
Provision for loan losses	5,961	1,102	1,267
Net interest income after provision for loan losses	39,403	43,170	39,690
Noninterest income			
Service charges on deposits	1,132	1,695	1,897
Loan servicing fees, net of amortization	1,856	1,186	1,078
Gain on sale of loans	6,092	5,905	4,880
Other income	1,691	2,640	1,474
Total noninterest income	10,771	11,426	9,329
Noninterest expense			
Salaries and employee benefits	20,041	20,267	18,195
Occupancy and equipment	4,974	4,648	4,111
Data processing and communication	1,682	1,530	1,231
Professional fees	1,101	980	921
FDIC insurance and regulatory assessments	449	259	405
Promotion and advertising	467	806	814
Directors’ fees	700	908	851
Foundation donation and other contributions	1,335	1,586	1,441
Other expenses	1,191	1,536	1,593
Total noninterest expense	31,940	32,520	29,562
Income before income taxes	18,234	22,076	19,457
Provision for income taxes	5,107	5,319	5,204
Net income	$ 13,127	$ 16,757	$ 14,253
Basic EPS	$ 0.85	$ 1.04	$ 0.92
Diluted EPS	$ 0.85	$ 1.03	$ 0.89

See accompanying notes to consolidated financial statements

OP BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2020, 2019, AND 2018

	For Year Ended December 31,		
	2020	2019	2018
	(Dollars in thousands)		
Net income	$ 13,127	$ 16,757	$ 14,253
Other comprehensive income (loss):			
Change in unrealized income (loss) on securities available for sale	925	1,045	(175)
Tax effect	(273)	(309)	(23)
Total other comprehensive income (loss)	652	736	(198)
Comprehensive income	$ 13,779	$ 17,493	$ 14,055

See accompanying notes to consolidated financial statements.

OP BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2020, 2019, AND 2018

	Common Stock		Additional		Accumulated Other	Total
	Shares Outstanding	Amount	Paid-in Capital	Retained Earnings	Comprehensive Income (Loss)	Shareholders' Equity
	(Dollars in thousands, except share data)					
Balance at January 1, 2018	13,190,527	$ 67,926	$ 5,280	$ 18,624	$ (350)	$ 91,480
Net income	—	—	—	14,253	—	14,253
Stock issued under stock offering, net of expenses	2,300,000	22,569	—	—	—	22,569
Stock issued under stock-based compensation plans	369,779	714	—	—	—	714
Stock-based compensation	—	—	969	—	—	969
Change in unrealized loss on securities available for sale net of reclassifications and tax effects	—	—	—	—	(198)	(198)
Balance at December 31, 2018	15,860,306	$ 91,209	$ 6,249	$ 32,877	$ (548)	$ 129,787
Balance at January 1, 2019	15,860,306	$ 91,209	$ 6,249	$ 32,877	$ (548)	$ 129,787
Net income	—	—	—	16,757	—	16,757
Stock issued under stock-based compensation plans	425,489	563	—	—	—	563
Stock-based compensation	—	—	1,275	—	—	1,275
Repurchase of common stock	(582,519)	(5,391)				(5,391)
Cash dividends declared	—	—	—	(3,151)	—	(3,151)
Change in unrealized gain on securities available for sale net of reclassifications and tax effects	—	—	—	—	736	736
Balance at December 31, 2019	15,703,276	$ 86,381	$ 7,524	$ 46,483	$ 188	$ 140,576
Balance at January 1, 2020	15,703,276	$ 86,381	$ 7,524	$ 46,483	$ 188	$ 140,576
Net income	—	—	—	13,127	—	13,127
Stock issued under stock-based compensation plans	298,591	380	—	—	—	380
Stock-based compensation	—	—	997	—	—	997
Repurchase of common stock	(985,167)	(8,104)				(8,104)
Cash dividends declared	—	—	—	(4,262)	—	(4,262)
Change in unrealized gain on securities available for sale net of reclassifications and tax effects	—	—	—	—	652	652
Balance at December 31, 2020	15,016,700	$ 78,657	$ 8,521	$ 55,348	$ 840	$ 143,366

See accompanying notes to consolidated financial statements

OP BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020, 2019, AND 2018

	Year ended December 31, 2020	2019	2018
	(Dollars in thousands)		
Cash flows from operating activities			
Net income	$ 13,127	$ 16,757	$ 14,253
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:			
Provision for loan losses	5,961	1,102	1,267
Depreciation and amortization of premises and equipment	1,301	1,146	1,043
Amortization of net premiums on securities	587	248	239
Stock-based compensation	997	1,275	969
Gain on sales of loans	(6,092)	(5,905)	(4,880)
Gain on sales of other assets	(213)	—	—
Earnings on company owned life insurance	(261)	(1,512)	(304)
Origination of loans held for sale	(111,015)	(89,778)	(74,246)
Proceeds from sales of loans held for sale	92,448	92,213	91,856
Amortization of servicing assets	1,737	2,084	2,041
Amortization of low income housing partnerships	262	223	226
Net change in fair value of equity investment with readily determinable fair value	(79)	(140)	30
Net change in:			
Accrued interest receivable	(1,462)	(98)	(605)
Deferred tax assets	(2,326)	(397)	237
Other assets	553	189	469
Accrued interest payable	(1,665)	971	1,292
Other liabilities	1,184	407	(3,282)
Net cash from operating activities	(4,956)	18,785	30,605
Cash flows from investing activities			
Net change in loans receivable	(109,470)	(115,767)	(127,806)
Proceeds from matured, called, or paid-down securities available for sale	30,321	14,549	6,562
Proceeds from COLI	—	2,288	—
Purchase of securities available for sale	(65,226)	(14,964)	(23,358)
Purchase of equity investments	—	(1,000)	—
Purchase of FHLB stock	(685)	(776)	(485)
Purchase of premises and equipment, net	(619)	(1,739)	(1,195)
Investment in low income housing partnerships	(1,389)	(622)	—
Net cash from investing activities	(147,068)	(118,031)	(146,282)
Cash flows from financing activities			
Net change in deposits	179,379	115,535	131,870
Cash received from stock option exercises	380	563	714
Borrowing of Federal Home Loan Bank advances	10,000	—	—
Repayment of Federal Home Loan Bank advances	(5,000)	—	(25,000)
Issuance of common stock, net of expenses	—	—	22,569
Repurchase of common stock	(8,104)	(5,391)	—
Cash dividend paid on common stock	(4,262)	(3,151)	—
Net cash from financing activities	172,393	107,556	130,153
Net change in cash and cash equivalents	20,369	8,310	14,476
Cash and cash equivalents at beginning of period	86,036	77,726	63,250
Cash and cash equivalents at end of period	$ 106,405	$ 86,036	$ 77,726
Supplemental cash flow information			
Cash paid during the period for:			
Income taxes	$ 6,125	$ 4,205	$ 6,609
Interest	9,957	13,535	7,819
Supplemental noncash disclosure:			
The adoption of ASU 2016-02, leases (Topic 842) recognition right-of-use assets	$ —	$ 8,254	$ —
Transfer from securities available for sale to other investments	—	—	2,486
New commitments to low income housing partnership investments	3,477	—	—

See accompanying notes to consolidated financial statements

OP BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020, 2019, AND 2018

Note 1. Summary of Significant Accounting Policies

Business Description: OP Bancorp is a California corporation that was formed to acquire 100% of the voting equity of Open Bank (the "Bank") and commenced operation as a bank holding company on June 1, 2016. This transaction was treated as an internal reorganization as all shareholders of the Bank became shareholders of OP Bancorp. OP Bancorp has no operations other than ownership of the Bank. The Bank is a California state-chartered and FDIC-insured financial institution, which began its operations on June 10, 2005. Headquartered in downtown Los Angeles, California, OP Bancorp operates primarily in the traditional banking business arena that includes accepting deposits and making loans and investments. OP Bancorp's primary deposit products are demand and time deposits, and the primary lending products are commercial business loans to small to medium sized businesses. OP Bancorp is operating with nine full service branches.

Initial Public Offering: On March 27, 2018, the Company completed its initial public offering of common stock, pursuant to which an aggregate of 2,300,000 shares of its common stock were sold at a public offering price of $11.00 per share, for aggregate net proceeds of approximately $22.6 million, after deducting underwriter discounts and commissions paid by it of approximately $1.7 million and other offering expenses of approximately $925,000.

Basis of Presentation: The consolidated financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates: To prepare financial statements in conformity with GAAP, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ. The Company could experience a material adverse effect on its business as a result of the impact of the novel coronavirus pandemic ("COVID-19") and the resulting governmental actions to curtail its spread. It is at least reasonably possible that the estimates based on information which was available at the date of the financial statements will change in the near term due to the COVID-19 pandemic and that the effect of the change would be material to the financial statements, including the allowance for loan losses. The extent to which the COVID-19 pandemic will impact our estimates and assumptions is highly uncertain and we are unable to make an estimate, at this time.

Concentration of Risk: Most of the Company's customers are located within Los Angeles County and the surrounding area. The concentration of loans originated in this area may subject the Company to the risk of adverse impacts of economic, regulatory or other developments that could occur in Southern California. The Company has significant concentration in commercial real estate loans. The Company obtains what it believes to be sufficient collateral to secure potential losses. The extent and value of the collateral obtained varies based upon the details underlying each loan agreement.

Cash Flows: Cash and cash equivalents include cash, deposits with other financial institutions with original maturities less than 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions and Federal Home Loan Bank advances transactions.

Securities: Securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax. Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment (“OTTI”) on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement, and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Other investments: Other investments includes the followings : (i) Federal Home Loan Bank (“FHLB”) Stock - the Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income; (ii) Pacific Coast Bankers Bank (“PCBB”) Stock - the Bank is a member of PCBB. PCBB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income; and (iii) the Company’s investment in a mutual fund to satisfy the Company’s requirements under the Community Reinvestment Act (“CRA”). CRA mutual fund is reported at fair value. Unrealized gains and losses on a CRA fund are recognized in other income in the Consolidated Statements of Income.

Loans Held for Sale: Certain Small Business Administration (“SBA”) loans that may be sold prior to maturity are designated as held for sale at origination and are recorded at the lower of their cost or fair value less costs to sell, determined on an aggregate basis. A valuation allowance is established if the market value of such loans is lower than their cost, and operations are charged or credited for valuation adjustments. Origination fees on loans held for sale, net of certain costs of processing and closing the loans, are deferred until the time of sale and are included in the computation of the gain or loss from the sales of the related loans. A portion of the premium on sale of SBA loans is recognized as gains on sales of loans at the time of the sale. These loans are generally sold with servicing retained.

Loans Receivable: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and costs and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments. The recorded investment in loans includes accrued interest receivable, deferred loan fees and costs, and unearned income.

The accrual of interest income on commercial real estate and other commercial and industrial loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Consumer loans are typically charged off no later than 120 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

All interest accrued but not received for loans placed on nonaccrual status is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that in management’s judgment should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement.

Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired. Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial real estate and construction loans. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Income recognition on impaired loans materially conforms to the method the Company uses for income recognition on nonaccrual loans.

Allowance for impaired loans is determined based on the present value of the estimated cash flows or on the fair value of the collateral if the loan is collateral dependent, less costs to sell. If the measured fair value is less than the recorded investment in the loan, the deficiency will be charged off against the allowance for loan losses, or alternatively, a specific allocation will be established. For consumer loans, management will generally charge off the balance if the loan is 90 days or more past due.

The general component of the allowance covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent two years. For those portfolio segments that the Company does not have sufficient historical data available to track the loss migration, the loss factors are based on the actual loss history experienced by the Company over the most recent five years. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

The following portfolio segments have been identified in the Company's loan portfolio, and are also representative of the classes within the portfolio: commercial real estate, SBA loans—real estate, SBA loans—non-real estate, commercial and industrial, home mortgage, and consumer. The Company reviews the credit risk exposure of all its portfolio segments by internally assigned grades. The Company categorizes loans into risk grades based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. For the home mortgage and consumer portfolio segments, the Company's primary monitoring tool is reviewing past due listings to determine if the loans are performing.

The determination of the allowance for loan losses is based on estimates that are particularly susceptible to changes in the economic environment and market conditions.

Servicing Assets: When SBA loans are sold with servicing retained, servicing assets are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, prepayment speeds, and default rates and losses. The Company compares the valuation model inputs and results to published industry data in order to validate the model results and assumptions. Servicing assets are subsequently measured using the amortization method which requires servicing assets to be amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing assets are evaluated for impairment based upon the fair value of the assets as compared to their carrying amount. Impairment is recognized through a valuation allowance to the extent that fair value is less than the carrying amount. If the Company later determines that all or a portion of the impairment no longer exists, a reduction of the valuation allowance may be recorded as an increase to income. Changes in the valuation allowances are reported with other income on the income statement. The fair values of servicing rights are subject to fluctuations as a result of changes in estimated and actual prepayment speeds, default rates, and losses.

Servicing fee income, which is reported on the income statement as other income, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal and are recorded as income when earned. The amortization of servicing assets is netted against loan servicing fee income. Late fees and ancillary fees related to loan servicing are not material.

Company Owned Life Insurance: The Company has purchased life insurance policies on certain key executives. Company owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Premises and Equipment: Premises and equipment are stated at cost, less accumulated depreciation. Equipment and furnishings are depreciated over 3 to 10 years, and leasehold improvements are amortized over the lesser of the terms of the respective leases or the estimated useful lives. The straight-line method of depreciation is used for financial reporting purposes. Repairs and maintenance are charged to operating expenses as incurred.

Other Real Estate Owned, Net: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when the legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through the completion of a deed in lieu of foreclosure or through a similar legal agreement. These assets are subsequently accounted for at the lower of their cost or fair value less estimated costs to sell. If their fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Low Income Housing Partnership Investments: The Company records the low income housing partnership investments, net of amortization, using the proportional amortization method and the Company reports it to other assets on the Consolidated Balance Sheet. The Company recognizes tax credits in income tax expense on the Consolidated Statement of Income. The commitments to fund the low income housing partnership investments are also recorded and inlcuded to other liabilities on the Consolidated Balance Sheet. The Company utilizes the year to date tax credits on the Company's income tax returns for the year.

Stock-Based Compensation: Compensation cost is recognized for stock options and restricted stock awards issued to employees based on the fair value of the awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company's common stock at the date of the grant is used for restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Earnings per Common Share: Basic and diluted earnings per share is based on the two-class method prescribed in ASC Topic 260, Earnings Per Share (ASC 260). Stock options and restricted stock awards are considered outstanding for this calculation unless unearned. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock-based compensation plans. Earnings and dividends per share are restated for all stock splits and stock dividends through the date of issuance of the financial statements.

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months.

The Company recognizes interest and/or penalties related to income tax matters in income tax expense. There were no interest or penalties recognized in the years ended December, 2020 or 2019.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale, which are also recognized as separate components of shareholders' equity, net of tax.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 13—Fair Value of Financial Instruments. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Operating Segments: While the chief decision-makers monitor the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Discrete financial information is not available other than on a Company-wide basis.

Recently Adopted Accounting Pronouncements:

In February 2016, the FASB issued its new lease accounting guidance in ASU No. 2016-02, *Leases (Topic 842)*. Under the new guidance, lessees will be required to recognize the following for all leases, with the exception of short-term leases, at the commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. In July 2018, the FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842, Leases* and ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*. ASU No. 2018-10 provides improvements related to ASU No. 2016-02 to increase stakeholders' awareness of the amendments and to expedite the improvements. The amendments affect narrow aspects of the guidance issued in ASU No. 2016-02. ASU No. 2018-11 allows entities adopting ASU No. 2016-02 to choose an additional (and optional) transition method, under which an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. ASU No. 2018-11 also allows lessors to not separate non-lease components from the associated lease component if certain conditions are met. The amendments in these updates become effective for annual periods and interim periods within those annual periods beginning after December 15, 2018. The Company elected the optional transition method permitted by ASU No. 2018-11. Under this method, an entity shall recognize and measure leases that exist at the application date and prior comparative periods are not adjusted. In addition, the Company elected the package of practical expedients to leases that commenced before the effective date: (1) An entity need not reassess whether any expired or existing contracts contain leases; (2) An entity need not reassess the lease classification for any expired or existing leases; (3) An entity need not reassess initial direct costs for any existing leases. The Company also elected the practical expedient, which must be applied consistently to all leases, to use hindsight in determining the lease term and in assessing impairment of our right-of-use assets. We also elected a practical expedient to not assess whether existing or expired land easements that were not previously accounted for as leases under Topic 840 contain a lease under this Topic. At the adoption date, the Company reported a lease liability of approximately $9.9 million, a right-of-use asset of approximately $8.0 million, and no cumulative-effect adjustment to retained earnings.

Future Accounting Pronouncements:

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASU 2016-13). The objective of ASU 2016-13 is to provide financial statement users with decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit. ASU 2016-13 includes provisions that require financial assets measured at amortized cost (such as loans and held to maturity (HTM) debt securities) to be presented at the net amount expected to be collected. This will be accomplished through recognition of an estimate of all current expected credit losses. The estimate will include forecasted information for the timeframe that an entity is able to develop reasonable and supportable forecasts. This is a change from the current practice of recognizing incurred losses based on the probable initial recognition threshold under current GAAP. In addition, credit losses on available for sale (AFS) debt securities will be recorded through an allowance for credit losses rather than as a write-down. Under ASU 2016-13, an entity will be able to record reversals of credit losses in current period income when the estimate of credit losses declines, whereas current GAAP prohibits reflecting those improvements in current period earnings.

In July 2019, FASB proposed the effective date delay to January 2020 for SEC filers, excluding smaller reporting companies (“SRCs”) and emerging growth companies (“EGCs”), and January 2023 for all other entities including SRCs and EGCs, and on October 2019, FASB voted to approve the proposed delay. The Company expects the adoption date of ASU 2016-13 will be January 2023. ASU 2016-13 will be applied through a cumulative effect adjustment to retained earnings (modified-retrospective approach), except for debt securities for which an other-than-temporary impairment had been recognized before the effective date. A prospective transition approach is required for these debt securities. The Company is currently evaluating the effects of ASU 2016-13 on its financial statements and disclosures, including software solutions, data requirements and loss estimation methodologies. The company has engaged a third party advisor to develop a new expected loss model. While the effects cannot yet be quantified, the Company expects ASU 2016-13 to add complexity and costs to its current credit loss evaluation process.

In March 2020, FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. This ASU provides optional expedients and exceptions for contracts, hedging relationships, and other transactions that reference LIBOR or other reference rates expected to be discontinued because of reference rate reform. The ASU is effective for all entities as of March 12, 2020 through December 31, 2022. The Company is in the process of evaluating the provisions of this ASU and its effects on our consolidated financial statements

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes This amendments simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amedments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. The effective date is March 31, 2021. The Company does not expect the adoption of this guidance will be material to its consolidated statement of income.

Note 2. Securities

The following table summarizes the amortized cost, fair value, and the corresponding amounts of gross unrealized gains and losses for available for sale securities at December 31, 2020 and December 31, 2019:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
As of December 31, 2020:				
Available for sale:				
U.S. Government sponsored agency securities	$ 1,000	$ 5	$ —	$ 1,005
Mortgage-backed securities: residential	19,281	430	(7)	19,704
Collateralized mortgage obligations: residential	70,318	814	(50)	71,082
Total available for sale	$ 90,599	$ 1,249	$ (57)	$ 91,791

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
As of December 31, 2019:				
Available for sale:				
U.S. Government sponsored agency securities	$ 5,000	$ 2	$ (1)	$ 5,001
Mortgage-backed securities: residential	15,559	94	(12)	15,641
Collateralized mortgage obligations: residential	35,723	243	(59)	35,907
Total available for sale	$ 56,282	$ 339	$ (72)	$ 56,549

There were no sales of securities available for sale during the years ended December 31, 2020 and 2019. The amortized cost and estimated fair value of securities available for sale at December 31, 2020, by contractual maturity, are shown below. Securities without a contractual maturity are shown separately.

	Amortized Cost	Fair Value
	(Dollars in thousands)	
As of December 31, 2020:		
Available for sale:		
Within one year	$ 1,000	$ 1,005
Mortgage-backed securities: residential	19,281	19,704
Collateralized mortgage obligations: residential	70,318	71,082
Total available for sale	$ 90,599	$ 91,791

Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. At December 31, 2020 and December 31, 2019, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders’ equity.

The following table summarizes securities with unrealized losses at December 31, 2020 and December 31, 2019, aggregated by length of time in a continuous unrealized loss position:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
As of December 31, 2020:						
Available for sale:						
Mortgage-backed securities: residential	$ 3,089	$ (7)	$ —	$ —	$ 3,089	$ (7)
Collateralized mortgage obligations: residential	13,593	(50)	—	—	13,593	(50)
Total available for sale	$ 16,682	$ (57)	$ —	$ —	$ 16,682	$ (57)

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
As of December 31, 2019:						
Available for sale:						
U.S. Government sponsored agency securities	$ —	$ —	$ 1,999	$ (1)	$ 1,999	$ (1)
Mortgage-backed securities: residential	—	—	3,254	(12)	3,254	(12)
Collateralized mortgage obligations: residential	8,878	(29)	3,658	(30)	12,536	(59)
Total available for sale	$ 8,878	$ (29)	$ 8,911	$ (43)	$ 17,789	$ (72)

The Company believes that the unrealized losses are temporary, arising mainly from fluctuations in interest rates and do not reflect a deterioration of credit quality of the issuers. In analyzing an issuer's financial condition, the Company may consider whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. The fair value is expected to recover as the securities approach maturity. Management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery.

There were no securities pledged as collateral at December 31, 2020 or December 31, 2019.

Other investments at December 31, 2020 and December 31, 2019, consisted of the following:

	December 31, 2020	December 31, 2019
	(Dollars in thousands)	
FHLB stock	$ 6,043	$ 5,358
PCBB stock	190	190
Mutual fund - CRA qualified	3,773	3,628
Total other investments	$ 10,006	$ 9,176

Effective January 2018, the Company adopted ASU 2016-01 and reclassified a $2.5 million of a mutual fund that the Company invested to satisfy the CRA requirements from securities available for sale to other investments, which is reported at fair value. Unrealized holding gains on this investment were $79,000 and $72,000 as of December 31, 2020 and December 31, 2019, respectively. These gains are included in Other Income in the Statements of Income.

Note 3. Loans

The composition of the loan portfolio was as follows at December 31, 2020 and December 31, 2019:

	December 31, 2020	December 31, 2019
	(Dollars in thousands)	
Real estate:		
Commercial real estate	$ 651,684	$ 630,668
SBA loans—real estate	136,224	122,373
Total real estate	787,908	753,041
SBA loans—non-real estate	75,151	9,895
Commercial and industrial	107,307	103,852
Home mortgage	128,212	120,686
Consumer	1,158	2,664
Gross loans receivable	1,099,736	990,138
Allowance for loan losses	(15,352)	(10,050)
Loans receivable, net	$ 1,084,384	$ 980,088

No loans were outstanding to related parties at December 31, 2020 or December 31, 2019.

The activity in the allowance for loan losses for the years ended December 31, 2020, 2019, and 2018 was as follows:

	Commercial Real Estate	SBA Loans Real Estate	SBA Loans Non-Real Estate	Commercial and Industrial	Home Mortgage	Consumer	Total
	(Dollars in thousands)						
Balance at January 1, 2018	$ 4,801	$ 1,082	$ 538	$ 1,265	$ 1,408	$ 45	$ 9,139
Provision for loan losses	4	(188)	103	1,115	245	(12)	1,267
Charge-offs	—	—	(153)	(634)	—	—	(787)
Recoveries	—	—	17	—	—	—	17
Balance at December 31, 2018	$ 4,805	$ 894	$ 505	$ 1,746	$ 1,653	$ 33	$ 9,636
Provision for loan losses	1,195	734	(384)	(457)	14	—	1,102
Charge-offs	—	(689)	—	—	—	—	(689)
Recoveries	—	—	—	—	—	1	1
Balance at December 31, 2019	$ 6,000	$ 939	$ 121	$ 1,289	$ 1,667	$ 34	$ 10,050
Provision for loan losses (1)	2,505	863	174	1,274	518	(16)	5,318
Charge-offs	—	—	(45)	—	—	—	(45)
Recoveries	—	—	28	—	—	1	29
Balance at December 31, 2020	$ 8,505	$ 1,802	$ 278	$ 2,563	$ 2,185	$ 19	$ 15,352

(1) Loan loss provision for the year ended December 31, 2020, reported on income statement is $6.0 million. The difference of $643,000 is allocated to allowance on accrued interest receivable on loan deferrals or loan modification.

The following table presents the balance in the allowance for loan losses and the recorded investment in loans (including accrued interest receivable of $4.4 million and $2.9 million as of December 31, 2020 and 2019, respectively) by portfolio segment at December 31, 2020 and December 31, 2019:

	Loans Individually Evaluated for Impairment	Loans Collectively Evaluated for Impairment	Total
	(Dollars in thousands)		
As of December 31, 2020:			
Allowance for loan losses:			
Commercial real estate	$ —	$ 8,505	$ 8,505
SBA loans—real estate	—	1,802	1,802
SBA loans—non-real estate	87	191	278
Commercial and industrial	330	2,233	2,563
Home mortgage	—	2,185	2,185
Consumer	—	19	19
Total	$ 417	$ 14,935	$ 15,352
Loans:			
Commercial real estate	$ —	$ 654,235	$ 654,235
SBA loans—real estate	—	136,873	136,873
SBA loans—non-real estate	174	75,477	75,651
Commercial and industrial	330	107,175	107,505
Home mortgage	—	128,683	128,683
Consumer	—	1,161	1,161
Total	$ 504	$ 1,103,604	$ 1,104,108
As of December 31, 2019:			
Allowance for loan losses:			
Commercial real estate	$ —	$ 6,000	$ 6,000
SBA loans—real estate	—	939	939
SBA loans—non-real estate	—	121	121
Commercial and industrial	333	956	1,289
Home mortgage	—	1,667	1,667
Consumer	—	34	34
Total	$ 333	$ 9,717	$ 10,050
Loans:			
Commercial real estate	$ —	$ 632,205	$ 632,205
SBA loans—real estate	484	122,438	122,922
SBA loans—non-real estate	33	9,921	9,954
Commercial and industrial	333	103,774	104,107
Home mortgage	—	121,161	121,161
Consumer	—	2,671	2,671
Total	$ 850	$ 992,170	$ 993,020

The following table presents information related to impaired loans by class of loans as of and for the years ended December 31, 2020, 2019, and 2018. The difference between the unpaid principal balance (net of partial charge-offs) and the recorded investment in the loans is not considered to be material. The difference between interest income recognized and cash basis interest recognized was immaterial.

	Recorded Investment	Allowance Allocated	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			
2020				
With an allowance recorded:				
SBA loans—non-real estate	$ 174	$ 87	$ 182	$ 41
Commercial and industrial	330	330	331	14
Total	$ 504	$ 417	$ 513	$ 55
2019				
With no related allowance recorded:				
SBA loans—real estate	$ 484	$ —	$ 503	$ —
SBA loans—non-real estate	33	—	45	—
With an allowance recorded:				
Commercial and industrial	333	333	338	20
Total	$ 850	$ 333	$ 886	$ 20
2018				
With no related allowance recorded:				
SBA loans—real estate	$ 834	$ —	$ 473	$ —
SBA loans—non-real estate	57	—	—	—
Commercial and industrial	680	—	715	—
With an allowance recorded:				
SBA loans—non-real estate	—	362	14	—
Commercial and industrial	836	836	841	49
Total	$ 2,407	$ 1,198	$ 2,043	$ 49

The following table presents the recorded investment in nonaccrual loans and loans past due greater than 90 days still accruing interest by class of loans at December 31, 2020 and December 31, 2019:

	Nonaccrual	Loans >90 Days Past Due & Still Accruing	Total
	(Dollars in thousands)		
As of December 31, 2020:			
SBA loans—non-real estate	$ 56	$ —	$ 56
Commercial and industrial	330	—	330
Home mortgage	599	—	599
Total	$ 985	$ —	$ 985
As of December 31, 2019:			
SBA loans—real estate	$ 484	$ —	$ 484
SBA loans—non-real estate	33	—	33
Home mortgage	698	—	698
Total	$ 1,215	$ —	$ 1,215

Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

The following table represents the aging of the recorded investment in past due loans at December 31, 2020 and December 31, 2019:

	30-59 Days Past Due	60-89 Days Past Due	> 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
			(Dollars in thousands)			
As of December 31, 2020:						
Commercial real estate	$ —	$ —	$ —	$ —	$ 654,235	$ 654,235
SBA—real estate	—	—	—	—	136,873	136,873
SBA—non-real estate	—	—	—	—	75,651	75,651
Commercial and industrial	—	—	—	—	107,505	107,505
Home mortgage	—	—	599	599	128,084	128,683
Consumer	—	—	—	—	1,161	1,161
	$ —	$ —	$ 599	$ 599	$ 1,103,509	$ 1,104,108
As of December 31, 2019:						
Commercial real estate	$ —	$ —	$ —	$ —	$ 632,205	$ 632,205
SBA—real estate	1,552	—	484	2,036	120,886	122,922
SBA—non-real estate	3	126	33	162	9,792	9,954
Commercial and industrial	364	—	—	364	103,743	104,107
Home mortgage	1,980	—	454	2,434	118,727	121,161
Consumer	—	—	—	—	2,671	2,671
	$ 3,899	$ 126	$ 971	$ 4,996	$ 988,024	$ 993,020

Troubled Debt Restructurings: As of December 31, 2020 and 2019, the Company had a recorded investment in TDRs of $330,000 and $333,000, respectively. The Company has allocated $330,000 and $333,000 of specific reserves to customers whose loan terms have been modified in TDRs as of December 31, 2020 and 2019, respectively. The Company has not committed to lend any additional amounts to customers with outstanding loans that are classified as TDRs.

Modifications made were primarily extensions of existing payment modifications on loans previously identified as TDRs. There were no new loans identified as TDRs during the years ended December 31, 2020, 2019, or 2018. The loan in TDRs was under loan deferment program of the CARES Act during the year ended December 31, 2020. There were no payment defaults during the years ended December 31, 2019, and 2018, of loans that had been modified as troubled debt restructurings within the previous twelve months.

Credit Quality Indicators: The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. For consumer loans, a credit grade is established at inception, and generally only adjusted based on performance. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a quarterly basis. The Company uses the following definitions for risk ratings:

Special Mention—Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Company's credit position at some future date.

Substandard—Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful—Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass-rated loans.

As of December 31, 2020 and December 31, 2019, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
As of December 31, 2020:					
Commercial real estate	$ 654,235	$ —	$ —	$ —	$ 654,235
SBA loans—real estate	134,815	535	1,523	—	136,873
SBA loans—non-real estate	75,453	—	198	—	75,651
Commercial and industrial	102,500	—	5,005	—	107,505
Home mortgage	128,084	—	599	—	128,683
Consumer	1,161	—	—	—	1,161
	$ 1,096,248	$ 535	$ 7,325	$ —	$ 1,104,108
As of December 31, 2019:					
Commercial real estate	$ 632,205	$ —	$ —	$ —	$ 632,205
SBA loans—real estate	120,116	770	2,036	—	122,922
SBA loans—non-real estate	9,781	140	33	—	9,954
Commercial and industrial	98,509	4,901	697	—	104,107
Home mortgage	120,463	—	698	—	121,161
Consumer	2,671	—	—	—	2,671
	$ 983,745	$ 5,811	$ 3,464	$ —	$ 993,020

Note 4. Leases

On January 1, 2019, the Company adopted ASU No. 2016-02, *Leases (Topic 842)*, using the optional transition method permitted by ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*. See Note 1 “Summary of Significant Accounting Policies” for additional information regarding adoption of ASU No. 2016-02.

The Company’s operating leases are real estate leases which are comprised of its headquarters and office facilities from nonaffiliated parties with remaining lease terms ranging from 1 to 10 years as of December 31, 2020. Certain lease arrangements contain extension option which are typically around 5 years. As these extension options are not generally considered reasonably certain of exercise, they are not included in the lease term.

At December 31, 2020 and December 31, 2019, operating right-of-use (“ROU”) assets were $6.8 million and $8.3 million, respectively, and related liabilities were $8.4 million and $10.1 million, respectively. Short-term operating leases, which are defined as leases with term of twelve months or less, were not recognized as ROU assets with related lease liabilities as permitted under ASU No. 2016-02. The lease payments on short-term operating leases are immaterial. The Company did not have any finance leases at December 31, 2020 and December 31, 2019.

Operating lease ROU assets represent the Company’s right to use the underlying asset during the lease term and operating lease liabilities represent the Company’s obligation to make lease payments arising from the lease. ROU assets and operating lease liabilities are recognized at least commencement based on the present value of the remaining lease payments using the Company’s incremental borrowing rate at the lease commencement date. Operating lease expense, which is comprised of amortization of the ROU asset and the implicit interest accreted on the operating lease liability, is recognized on a straight-line basis over the lease term and is recorded in occupancy expense in the consolidated statements of income. The Company’s occupancy expense also includes variable lease costs which is comprised of the Company's share of actual costs for utilities, common area maintenance, property taxes, and insurance that are not included in lease liabilities and are expensed as incurred. Variable lease costs can also include rent escalations based on changes to indices, such as the Consumer Price Index, where the Company estimates future rent increases and records the actual difference to variable costs.

The table below summarized the Company’s total lease cost for the periods indicated:

(Dollars in thousands)	**Year Ended December 31, 2020**	**Year Ended December 31, 2019**
Operating lease cost	$ 1,769	$ 1,731
Variable lease cost	774	728
Total lease cost	$ 2,543	$ 2,459

The table below summarizes other information related to the Company’s operating leases as of the associated period:

(Dollars in thousands)	**Year Ended December 31, 2020**	**Year Ended December 31, 2019**
Operating right-of-use assets	$ 6,786	$ 8,254
Operating lease liabilities	8,429	10,126
Weighted average remaining lease term - operating leases	5.0 years	5.7 years
Weighted average discount rate - operating leases	2.99%	2.98%

(Dollars in thousands)	**Year Ended December 31, 2020**	**Year Ended December 31, 2019**
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 2,005	$ 1,902

Rent expense was $2.5 million for the years ended December 31, 2020 and 2019, and $2.1 million for the year ended December 31, 2018.

The table below summarizes the remaining contractually obligated lease payments and a reconciliation to the lease liability reported on the consolidated balance sheet as of December 31, 2020:

(Dollars in thousands)	**December 31, 2020**
2021	$ 2,047
2022	2,033
2023	1,811
2024	1,700
2025	676
Thereafter	956
Total lease payments	9,223
Discount to present value	(794)
Total lease liability	$ 8,429

Note 5. Premises and equipment

The Company's premises and equipment consisted of the following at December 31, 2020 and December 31, 2019:

	December 31, 2020	December 31, 2019
	(Dollars in thousands)	
Leasehold improvements	$ 6,878	$ 6,571
Furniture and fixtures	3,307	3,174
Equipment and others	2,593	2,414
Total cost	12,778	12,159
Accumulated depreciation	(8,234)	(6,933)
Net book value	$ 4,544	$ 5,226

Total depreciation expense included in occupancy and equipment expenses for the years ended December 31, 2020, 2019, and 2018, was $1.3 million, $1.1 million, and $1.0 million, respectively.

Note 6. Servicing Assets

Activity for loan servicing assets during the years ended December 31, 2020, 2019, and 2018 is as follows:

	Year Ended		
	2020	2019	2018
		(Dollars in thousands)	
Beginning balance	$ 7,024	$ 6,987	$ 6,771
Additions	2,073	2,121	2,257
Amortized to expense	(1,737)	(2,084)	(2,041)
Ending balance	$ 7,360	$ 7,024	$ 6,987

There was no valuation allowance recorded against the carrying value of the servicing assets as of December 31, 2020, 2019, or 2018.

The fair value of the servicing assets was $9.1 million at December 31, 2020, which was determined using discount rates ranging from 1.75% to 10.00% and prepayment speeds ranging from 14.3% to 15.1%, depending on the stratification of the specific assets.

The fair value of the servicing assets was $8.2 million at December 31, 2019, which was determined using discount rates ranging from 1.75% to 10.00% and prepayment speeds ranging from 14.0% to 15.3%, depending on the stratification of the specific assets.

Note 7. Deposits

Time deposits that exceed the FDIC insurance limit of $250,000 at December 31, 2020 and December 31, 2019 were $200.2 million and $213.3 million, respectively.

The scheduled maturities of time deposits were as follows at December 31, 2020:

	December 31, 2020 (In thousands)
2021	$ 338,316
2022	8,146
2023	1,433
2024	713
2025	405
Total	$ 349,013

Deposits from principal officers, directors, and their affiliates at December 31, 2020 and December 31, 2019 were $1.5 million and $1.6 million, respectively.

Note 8. Borrowing arrangements

As of December 31, 2020, the Company had $5.0 million borrowings from the Federal Home Loan Bank of San Francisco. The Company has a letter of credit with the FHLB in the amount of $67.0 million to secure a public deposit.

The Company had available borrowings from the following institutions as of December 31, 2020:

	December 31, 2020 (In thousands)
Federal Home Loan Bank—San Francisco	$ 262,990
Federal Reserve Bank	125,672
Pacific Coast Bankers Bank	50,000
Zions Bank	25,000
First Horizon Bank	25,000
Total	$ 488,662

The Company has pledged approximately $909.2 million of loans as collateral for these lines of credit as of December 31, 2020.

Note 9. Income Taxes

Income tax expense was as follows:

	Year Ended December 31, 2020	Year Ended December 31, 2019	Year Ended December 31, 2018
		(Dollars in thousands)	
Current federal expense	$ 4,837	$ 3,162	$ 3,458
Current state expense	2,596	1,983	1,983
	7,433	5,145	5,441
Deferred federal expense	(1,516)	228	(131)
Deferred state expense	(810)	(54)	(106)
	(2,326)	174	(237)
Total tax expense	$ 5,107	$ 5,319	$ 5,204

Effective tax rates differ from the federal statutory rates of 21% for 2020, 2019, and 2018 applied to income before taxes due to the following:

	Year Ended December 31, 2020	Year Ended December 31, 2019	Year Ended December 31, 2018
		(Dollars in thousands)	
Federal statutory rate times financial statement income	$ 3,840	$ 4,636	$ 4,086
Effect of:			
Meals and entertainment	34	39	39
State income taxes, net of federal tax benefit	1,509	1,608	1,494
Stock option expense and related excess tax benefits	(134)	(419)	(400)
Company owned life insurance	(55)	(314)	(64)
Other, net	(87)	(231)	49
	1,267	683	1,118
Total tax expense	$ 5,107	$ 5,319	$ 5,204

The net deferred tax asset included in the statement of financial position includes the following components at the dates indicated below:

	December 31, 2020	December 31, 2019
	(Dollars in thousands)	
Deferred tax assets:		
Pre-opening expense	$ —	$ 7
Organizational costs	25	27
Allowance for loan losses	4,717	2,971
Loans held for sale	695	52
Stock-based compensation	515	464
Accrued compensation	181	138
Lease liability	2,492	2,994
State taxes	586	456
Nonaccrual loan interest income	7	27
Other	23	24
Total deferred tax assets	9,241	7,160
Deferred tax liabilities:		
Loan origination costs	(1,110)	(752)
Depreciation	(487)	(663)
Right of use asset	(2,006)	(2,441)
Net unrealized gain on securities available for sale	(352)	(79)
Other	(44)	(36)
Total deferred tax liabilities	(3,999)	(3,971)
Net deferred tax asset	$ 5,242	$ 3,189

A valuation allowance for deferred tax assets is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and tax planning strategies which will create taxable income during the periods in which those temporary differences become deductible. At December 31, 2020, management reevaluated all positive and negative evidence that existed and concluded all deferred tax assets are realizable. Therefore, no valuation allowance is necessary.

The Company is subject to U.S. Federal income tax as well as various state taxing jurisdictions. The Company is no longer subject to examination by Federal taxing authorities for tax years prior to 2017 and for state taxing authorities for tax years prior to 2016.

There were no significant unrealized tax benefits recorded as of December 31, 2020, 2019 and 2018, and the Company does not expect any significant increase in unrealized tax benefits in the next twelve months.

Note 10. Commitments and Contingencies

Off-Balance-Sheet Credit Risk: The commitments and contingent liabilities include various commitments to extend credit and standby letters of credit, which arise in the normal course of business. Commitments to extend credit are legally binding loan commitments with set expiration dates. Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. They are intended to be disbursed, subject to certain conditions, upon request of the borrower.

The Company evaluates the creditworthiness of each customer. Collateral, if deemed necessary by the Company upon the extension of credit, is obtained based on management's evaluation of the borrower. Collateral for commercial and industrial loans may vary, but may include securities, accounts receivable, inventory, property, plant and equipment, and income producing commercial or other properties.

The following table shows the distribution of undisbursed loan commitments as of the dates indicated:

	December 31, 2020	December 31, 2019
	(Dollars in thousands)	
Commitments to extend credit	$ 75,740	$ 66,153
Standby letter of credit	9,212	7,377
Commercial letter of credit	1,552	1,111
Total undisbursed loan commitments	$ 86,504	$ 74,641

The majority of these off-balance sheet commitments have a variable interest rate. Management does not anticipate any material losses as a result of these transactions.

Investments in low income housing partnership: The Company invests in qualified affordable housing partnerships. The following table shows the balance of the investments in low income housing partnerships and the total unfunded commitments related to the investments in low income housing partnerships as of the dates indicated:

	December 31, 2020	December 31, 2019
	(Dollars in thousands)	
Investments in low income housing partnerships	$ 4,932	$ 1,719
Unfunded commitments to fund investments for low income housing partnerships	2,154	70

These balances are reflected in the other assets and other liabilities lines on the Consolidated Balance Sheets. The Company expects to finish fulfilling these commitments during the year ending 2034.

The Company recognized amortization expense of $262,000, $222,000 and $226,000, for the years ended December 31, 2020, 2019 and 2018, respectively, which was included within income tax expense on the Consolidated Statements of Income. Additionally, the Company recognized tax credits and other benefits from the investments in low income housing partnerships of $251,000, 199,000 and $203,000, for the years ended December 31, 2020, 2019 and 2018, respectively.

Note 11. Stock-based Compensation

The Company has two stock-based compensation plans currently in effect as of December 31, 2020, as described further below. Total compensation cost that has been charged against earnings for these plans in 2020, 2019, and 2018 was $997,000, $1,275,000, and $969,000, respectively.

2005 Plan: In 2005, the Board of Directors and shareholders of the Bank approved a stock option plan for the benefit of directors and employees of the Bank (the "2005 Plan"). The 2005 Plan was assumed by the Company in 2016 at the time of the bank holding company reorganization. Under the 2005 Plan, the Bank was authorized to grant options to purchase up to 770,000 shares of the Company's common stock.

The exercise prices of the options may not be less than 100 percent of the fair value of the Company's common stock at the date of grant. The options, when granted, vest either immediately or ratably over five years from the date of the grant and expire after ten years if not exercised. The 2005 Plan expired in 2015 and no future grants can be made under the 2005 Plan.

A summary of the transactions under the 2005 Plan for the year ended December 31, 2020 is as follows:

	Number of Options Outstanding	Weighted Average Exercise Price	Aggregate Intrinsic Value
	(Dollars in thousands, except share data)		
Outstanding, as of January 1, 2020	155,000	$ 4.70	
Options granted	—	—	
Options exercised	(55,000)	1.15	
Options forfeited	—	—	
Options expired	—	—	
Outstanding, as of December 31, 2020	100,000	5.77	$ 195
Fully vested and expected to vest	100,000	5.77	$ 195
Vested	100,000	$ 5.77	$ 195

Information related to the 2005 Plan for the periods indicated follows:

	Year Ended December 31,		
(Dollars in thousands)	2020	2019	2018
Intrinsic value of options exercised	$ 370	$ 592	$ 634
Cash received from option exercises	63	179	195
Tax benefit realized from option exercised	17	5	—

The weighted average remaining contractual term of stock options outstanding under the 2005 Plan at December 31, 2020 was 2.6 years. The weighted average remaining contractual term of stock options that were exercisable at December 31, 2020 was 2.6 years. All of the stock options that are outstanding under the 2005 Plan were fully vested as of December 31, 2020.

2010 Plan: In 2010, the Board of Directors of the Bank approved a new equity incentive plan for granting stock options and restricted stock awards to key employees, officers, and non-employee directors of the Bank (the "2010 Plan"). In 2013, the 2010 Plan was amended and approved by the shareholders to increase the number of shares authorized to be issued under from 1,350,000 shares to 2,500,000 shares of common stock. The 2010 Plan was assumed by the Company in 2016 at the time of the bank holding company reorganization.

The exercise prices of stock options granted under the plan may not be less than 100 percent of the fair value of the Company's stock at the date of grant. The options, when granted, vest ratably over five years from the date of the grant and expire after ten years if not exercised. There were no stock options granted under the 2010 Plan during 2020 or 2019.

Restricted stock awards issued under the 2010 Plan may or may not be subject to vesting provisions. Awards which were granted in 2020 and 2019 vest at the end of three years or five years from the date of the grant. Owners of the restricted stock awards shall have all of the rights of a shareholder including the right to vote the shares and to all dividends (cash or stock). Compensation expense related to restricted stock awards will be recognized over the vesting period of the awards based on the fair value of the Company's common stock at the issue date.

A summary of the transactions under the 2010 Plan for the year ended December 31, 2020 is as follows:

	Number of Options Outstanding	Weighted Average Exercise Price	Aggregate Intrinsic Value
	(Dollars in thousands, except share data)		
Outstanding, as of January 1, 2020	365,000	$ 5.78	
Options granted	—	—	
Options exercised	(145,000)	2.19	
Options forfeited	—	—	
Options expired	—	—	
Outstanding, as of December 31, 2020	220,000	7.75	$ 52
Fully vested and expected to vest	212,500	7.74	$ 52
Vested	190,000	$ 7.71	$ 52

Information related to stock options exercised under the 2010 Plan for the periods indicated follows:

	Year Ended December 31,		
(Dollars in thousands)	2020	2019	2018
Intrinsic value of options exercised	$ 729	$ 1,728	$ 1,338
Cash received from option exercises	317	385	519
Tax benefit realized from option exercised	157	453	286

The weighted average remaining contractual term of stock options outstanding under the 2010 Plan at December 31, 2020 was 3.12 years. The weighted average remaining contractual term of stock options that were exercisable at December 31, 2020 was 3.09 years.

A summary of the changes in the Company's non-vested restricted stock awards under the 2010 Plan for the year ended December 31, 2020 is as follows:

	Shares Issued	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value
	(Dollars in thousands, except share data)		
Non-vested, as of January 1, 2020	294,500	$ 9.20	
Awards granted	13,359	6.37	
Awards vested	(138,859)	5.92	
Awards forfeited	(14,500)	11.77	
Non-vested, as of December 31, 2020	154,500	$ 11.66	$ 1,190

Information related to non-vested restricted stock awards under the 2010 Plan for the periods indicated follows:

	Year Ended December 31,		
(Dollars in thousands)	2020	2019	2018
Tax benefit realized from awards vested	$ 21	$ 144	$ 291

The 2010 Plan expired in August 2020 and no future grants can be made under the 2010 Plan. As of December 31, 2020, the Company had approximately $507,000 of unrecognized compensation cost related to unvested stock options and restricted stock awards under the 2010 Plan. The Company expects to recognize these costs over a weighted average period of 0.77 years.

Note 12. Employee Benefit Plan

The Company established a 401(k) profit sharing plan (the “401(k) Plan”) which is open to all eligible employees who are at least 18 years old and have completed 90 days of service. Each employee is allowed to contribute to the 401(k) Plan up to the maximum percentage allowable, not to exceed the limits of applicable IRS Code Sections. Each year, the Company may, in its discretion, make matching contributions to the 401(k) Plan. Total employer contributions to the 401(k) Plan amounted to $691,000, $602,000, and $481,000 for the years ended December 31, 2020, 2019 and 2018, respectively.

Note 13. Revenue Recognition

Accounting Standards Codification ("ASC") 606, Revenue from Contracts with Customers ("ASC 606"), establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

The majority of the Company’s revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as loans, letters of credit, and investment securities, as well as revenue related to mortgage servicing activities and revenue on company owned life insurance, as these activities are subject to other GAAP discussed elsewhere within the disclosures. Descriptions of the Company’s revenue-generating activities that are within the scope of ASC 606, which are presented in the Company’s income statements as components of noninterest income are as follows:

Service charges on deposits: Income from service charges on deposits is within the scope of ASC 606. These include general service fees for monthly account maintenance and activity or transaction-based fees and consist of transaction-based revenue, time-based revenue (service period), item-based revenue or some other individual attribute-based revenue. Revenue on these types of fees are recognized when the Company’s performance obligation is completed which is generally monthly for account maintenance services or when a transaction has been completed. Payment for such performance obligations are generally received at the time the performance obligations are satisfied. $754,000, or 1.3% of total revenues in 2020, and $736,000, or 1.3% of total revenues in 2019, of service charges on deposits are related to these revenue streams. Service charges on deposits also include overdraft and NSF fees. Overdraft fees are charged when a depositor has a draw on their account that has inadequate funds. In certain instances, the Company, at its sole discretion, may pay to the party requesting the draw on the deposit account, the balance of the draw for which there are inadequate funds rather than denying payment of the item. The Company then charges a fee for this short term extension of credit to the depositor for not complying with the balance requirements stipulated in the deposit agreement with the Bank, and as well as to cover the cost of advancing those funds. NSF fees are charged to customers when in the event of a draw on the customer's account that has insufficient funds to meet the payment of the draw (such as through written checks or ACH transactions), the Company returns the item rather than paying the balance of the draw for which the customer has inadequate funds. This typically happens when the customer has fairly sizable draws or multiple draws on an account that has inadequate funds to meet the demands for payment. $378,000, or 0.7% of total revenues in 2020, and $958,000, or 1.7% of total revenues in 2019, of service charges on deposits are from overdraft and NSF fees.

Wire transfer fee income: This revenue stream is generated through the processing of customers’ incoming and outgoing wire transfers. Income generated from wire transfer fees is within the scope of ASC 606 and approximately $299,000, or 0.5% of total revenues for year ended December 31, 2020, and $320,000, or 0.6% of total revenues for year ended December 31, 2019 are included in other income in noninterest income.

Other revenue streams that are recorded in other income in noninterest income include revenue generated from letters of credit and income on company owned life insurance. These revenue streams are either not material or out of scope of ASC 606.

Note 14. Fair Value of Financial Instruments

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1—Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2—Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3—Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate fair value:

Securities Available for Sale: The fair values of investment securities are determined by matrix pricing, which is a mathematical technique used to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2). Management obtains the fair values of investment securities on a monthly basis from a third-party pricing service.

Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's judgment, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Appraisals for collateral-dependent impaired loans are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, a member of the credit department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics.

Assets and liabilities measured at fair value on a recurring basis at December 31, 2020 and December 31, 2019 are summarized below:

	Total Fair Value	Fair Value Measuring Using: Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in thousands)			
As of December 31, 2020:				
U.S. Government sponsored agency securities	$ 1,005	$ —	$ 1,005	$ —
Mortgage-backed securities - residential	19,704	—	19,704	—
Collateralized mortgage obligations	71,082	—	71,082	—
Other investments:				
Mutual fund - CRA qualified	3,773	3,773	—	—
As of December 31, 2019:				
U.S. Government sponsored agency securities	$ 5,001	$ —	$ 5,001	$ —
Mortgage-backed securities - residential	15,641	—	15,641	—
Collateralized mortgage obligations	35,907	—	35,907	—
Other investments:				
Mutual fund - CRA qualified	3,628	3,628	—	—

There were no transfers of assets or liabilities between the Level 1 and Level 2 classifications during 2020 or 2019. There were no assets or liabilities measured at fair value on a non-recurring basis at December 31, 2020 or 2019.

Financial Instruments: The carrying amounts and estimated fair values of financial instruments not carried at fair value, at December 31, 2020 are as follows:

	Carrying Amount	Level 1	Level 2	Level 3	Value
	(Dollars in thousands)				
As of December 31, 2020:					
Financial Assets:					
Cash and cash equivalents	$ 106,405	$ 106,405	$ —	$ —	$ 106,405
Loans held for sale	26,659	—	26,659	—	26,659
Loans receivable, net	1,084,384	—	—	1,109,217	1,109,217
Accrued interest receivable, net	3,985	7	249	3,729	3,985
Other investments:					
FHLB and PCBB stock	6,233	N/A	N/A	N/A	N/A
Financial Liabilities:					
Deposit	$ 1,200,090	$ —	$ 1,200,789	$ —	$ 1,200,789
'FHLB Advances	5,000	—	5,000	—	5,000
Accrued interest payable	1,021	—	1,021	—	1,021

The carrying amounts and estimated fair values of financial instruments not carried at fair value at December 31, 2019 are as follows:

	Carrying Amount	Level 1	Level 2	Level 3	Value
	(Dollars in thousands)				
As of December 31, 2019:					
Financial Assets:					
Cash and cash equivalents	$ 86,036	$ 86,036	$ —	$ —	$ 86,036
Loans held for sale	2,100	—	2,100	—	2,100
Loans receivable, net	980,088	—	—	1,009,490	1,009,490
Accrued interest receivable, net	3,166	41	243	2,882	3,166
Other investments:					
FHLB and PCBB stock	5,548	N/A	N/A	N/A	N/A
Financial Liabilities:					
Deposit	$ 1,020,711	$ —	$ 1,021,571	$ —	$ 1,021,571
Accrued interest payable	2,686	—	2,686	—	2,686

The methods and assumptions, not previously presented, used to estimate fair value are described as follows:

(a) Cash and Cash equivalents

The carrying amounts of cash and short-term instruments approximate fair values and are classified as Level 1.

(b) Loans Held for Sale

The fair value of loans held for sale is estimated based upon binding contracts and quotes from third party investors resulting in a Level 2 classification.

(c) Loans Receivable, Net

Fair values of loans, excluding loans held for sale, are based on the exit price notion set forth by ASU 2016-01 effective January 1, 2018 and estimated using discounted cash flow analyses. The estimation of fair values of loans results in a Level 3 classification as it requires various assumptions and considerable judgement to incorporate factors relevant when selling loans to market participants, such as funding costs, return requirements of likely buyers and performance expectations of the loans given the current market environment and quality of loans.

(d) Other Investments

Fair value of CRA qualified mutual fund is readily determinable using quoted prices and is classified as Level 1. It is not practical to determine the fair value of FHLB and PCBB stock due to restrictions placed on their transferability.

(e) Deposits

The fair values disclosed for demand deposits (e.g., interest and noninterest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount) resulting in a Level 2 classification. The carrying amounts of variable rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date resulting in a Level 2 classification. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flows calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

(f) Federal Home Loan Bank Advances

The fair values of Federal Home Loan Bank Advances are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements, resulting in a Level 2 classification.

(g) Accrued Interest Receivable/Payable

The carrying amounts of accrued interest approximate fair value and are classified within the same fair value hierarchy level as the related asset or liability.

(h) Off-balance Sheet Instruments

Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of commitments is not material.

Note 15. Regulatory Capital Matters

Under the Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffers for 2020 and 2019 are 2.50%. Management believes that as of December 31, 2020 and 2019, the Bank met all capital adequacy requirements to which they are subject to. Based on recent changes to the Federal Reserve's definition of a "Small Bank Holding Company" that increased the threshold to $3 billion in assets, the Company is not currently subject to separate minimum capital measurements. At such time as the Company reaches the $3 billion asset level, it will again be subject to capital measurements independent of the Bank. For comparison purposes, the Company's ratios are included in following discussion as well. Unrealized gain or loss on securities available-for-sale is not included in computing regulatory capital.

The following table presents the regulatory capital amounts and ratios for the Company and the Bank as of dates indicated:

	Actual		Required for Capital Adequacy Purposes		Minimum To be Considered "Well Capitalized"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
As of December 31, 2020:						
Total capital (to risk-weighted assets)						
Consolidated	$ 155,287	14.81%	N/A	N/A	N/A	N/A
Bank	152,232	14.52%	83,859	8.00%	104,824	10.00%
Tier 1 capital (to risk-weighted assets)						
Consolidated	142,147	13.56%	N/A	N/A	N/A	N/A
Bank	139,092	13.27%	62,894	6.00%	83,859	8.00%
Common equity Tier 1 capital (to risk-weighted assets)						
Consolidated	142,147	13.56%	N/A	N/A	N/A	N/A
Bank	139,092	13.27%	47,171	4.50%	68,136	6.50%
Tier 1 capital (to average assets)						
Consolidated	142,147	10.55%	N/A	N/A	N/A	N/A
Bank	139,092	10.32%	53,915	4.00%	67,393	5.00%

Note: The capital requirements are only applicable to the Bank, and the Company's ratios are included for comparison purpose.

	Actual		Required for Capital Adequacy Purposes		Minimum To be Considered "Well Capitalized"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
As of December 31, 2019:						
Total capital (to risk-weighted assets)						
Consolidated	$ 150,092	15.18%	N/A	N/A	N/A	N/A
Bank	147,820	14.96%	79,069	8.00%	98,836	10.00%
Tier 1 capital (to risk-weighted assets)						
Consolidated	139,975	14.16%	N/A	N/A	N/A	N/A
Bank	137,703	13.93%	59,301	6.00%	79,069	8.00%
Common equity Tier 1 capital (to risk-weighted assets)						
Consolidated	139,975	14.16%	N/A	N/A	N/A	N/A
Bank	137,703	13.93%	44,476	4.50%	64,243	6.50%
Tier 1 capital (to average assets)						
Consolidated	139,975	12.14%	N/A	N/A	N/A	N/A
Bank	137,703	11.95%	46,103	4.00%	57,629	5.00%

Note: The capital requirements are only applicable to the Bank, and the Company's ratios are included for comparison purpose.

Note 16. Earnings per Share

The two-class method is used in the calculation of basic and diluted earnings per share. Under the two-class method, earnings available to common shares are allocated between common shares and participating securities. The Company’s restricted stock awards are considered participating securities as the unvested awards have non-forfeitable rights to dividends, paid or unpaid, on unvested awards. The factors used in the earnings per share computation follow:

(Dollars in thousands, except share data)	Year Ended December 31, 2020	2019	2018
Basic			
Net income	$ 13,127	$ 16,757	$ 14,253
Undistributed earnings allocated to participating securities	(195)	(383)	(422)
Net income allocated to common shares	12,932	16,374	13,831
Weighted average common shares outstanding	15,196,351	15,741,926	15,104,939
Basic earnings per common share	$ 0.85	$ 1.04	$ 0.92
Diluted			
Net income allocated to common shares	$ 12,932	$ 16,374	$ 13,831
Weighted average common shares outstanding for basic earnings per common share	15,196,351	15,741,926	15,104,939
Add: Dilutive effects of assumed exercises of stock options	27,537	193,388	446,124
Average shares and dilutive potential common shares	15,223,888	15,935,314	15,551,063
Diluted earnings per common share	$ 0.85	$ 1.03	$ 0.89

Stock options and restricted stock awards for 222,000 shares of common stock were not considered in computing diluted earnings per common share for year ended December 31, 2020, because they were antidilutive. No share of common stock was antidilutive for year ended December 31, 2019 or December 31, 2018.

Note 17. Condensed Financial Statements of Parent Company

The following presents the unconsolidated condensed financial statements of only the parent company, OP Bancorp, as of December 31, 2020 and 2019:

CONDENSED BALANCE SHEETS

	December 31,	
	2020	2019
	(Dollars in thousands)	
ASSETS		
Investment in bank subsidiary	$ 140,311	$ 138,304
Cash and cash equivalents	3,468	2,219
Other assets	34	141
Total assets	$ 143,813	$ 140,664
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable and other liabilities	447	88
Shareholders' equity	143,366	140,576
Total liabilities and shareholders' equity	$ 143,813	$ 140,664

CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Years Ended December 31,		
	2020	2019	2018
	(Dollars in thousands)		
Other expense	$ 1,047	$ 1,011	$ 134
Income before income tax and undistributed subsidiary income	(1,047)	(1,011)	(134)
Income tax benefit	(275)	(288)	(40)
Equity in undistributed subsidiary income	13,899	17,480	14,347
Net income	13,127	16,757	14,253
Other comprehensive income (loss), net of tax	652	736	(198)
Comprehensive income	$ 13,779	$ 17,493	$ 14,055

CONDENSED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2020	2019	2018
	(Dollars in thousands)		
Cash flows from operating activities			
Net income	$ 13,127	$ 16,757	$ 14,253
Adjustments:			
Equity in undistributed subsidiary income	(13,899)	(17,480)	(14,347)
Change in other assets	107	6	94
Change in accounts payable and other liabilities	359	88	—
Net cash from operating activities	(306)	(629)	—
Cash flows from investing activities			
Net cash from investing activities	—	—	—
Cash flows from financing activities			
Repurchase of common stock	(8,104)	(5,391)	—
Cash dividend paid on common stock	(4,262)	(3,151)	—
Proceeds from subsidiaries	13,921	11,390	—
Net cash from financing activities	1,555	2,848	—
Net change in cash and cash equivalents	1,249	2,219	—
Cash and cash equivalents at beginning of year	2,219	—	—
Cash and cash equivalents at end of year	$ 3,468	$ 2,219	$ —

Note 18. QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized unaudited quarterly financial data follows for the three months ended:

	2020 Quarter Ended,			
	March 31	June 30	September 30	December 31
	(Dollars in thousands, except per share data)			
Interest income	$ 14,345	$ 12,920	$ 13,016	$ 13,375
Interest expense	3,229	2,272	1,597	1,194
Net interest income before provision for loan losses	11,116	10,648	11,419	12,181
Provision for loan losses	743	1,988	1,399	1,831
Net interest income after provision for loan losses	10,373	8,660	10,020	10,350
Noninterest income	2,296	2,062	3,021	3,392
Noninterest expense	8,207	7,334	7,987	8,412
Income before income tax provision	4,462	3,388	5,054	5,330
Income tax provision	1,163	972	1,459	1,513
Net income	$ 3,299	$ 2,416	$ 3,595	$ 3,817
Basic earnings per common share	$ 0.21	$ 0.16	$ 0.23	$ 0.25
Diluted earnings per common share	$ 0.21	$ 0.16	$ 0.23	$ 0.25

	2019 Quarter Ended,			
	March 31	June 30	September 30	December 31
	(Dollars in thousands, except per share data)			
Interest income	$ 14,086	$ 14,878	$ 15,112	$ 14,703
Interest expense	3,288	3,701	3,893	3,625
Net interest income before provision for loan losses	10,798	11,177	11,219	11,078
Provision for loan losses	—	401	290	411
Net interest income after provision for loan losses	10,798	10,776	10,929	10,667
Noninterest income	3,533	2,647	2,733	2,513
Noninterest expense	8,073	8,358	8,424	7,665
Income before income tax provision	6,258	5,065	5,238	5,515
Income tax provision	1,518	1,229	1,238	1,334
Net income	$ 4,740	$ 3,836	$ 4,000	$ 4,181
Basic earnings per common share	$ 0.29	$ 0.24	$ 0.25	$ 0.26
Diluted earnings per common share	$ 0.29	$ 0.23	$ 0.24	$ 0.26

Note 19. Subsequent Events

On January 28, 2021, the Bank entered into an Asset Purchase Agreement (“Agreement”) with Hana Small Business Lending, Inc., a Delaware corporation (“Hana”), to purchase its SBA loan portfolio. Under the terms of the Agreement, as of January 28, 2021, the balance of loans outstanding to be acquired was approximately $105 million, comprised primarily of SBA 7(a) loans with a small balance of SBA PPP loans. The Bank will also acquire a servicing portfolio consisting of guaranteed SBA 7(a) loans sold in the secondary market with a balance of approximately $295 million. The purchase price is based on a formula that will be calculated at closing (including certain price adjustments), but it is estimated at approximately $102 million.

FIRST AMENDMENT OF THE AMENDED AND RESTATED BYLAWS OF OP BANCORP

The Amended and Restated Bylaws of OP Bancorp, a California corporation (the "**Company**"), are hereby amended as set forth below. Upon the approval of this First Amendment of the Amended and Restated Bylaws (the "**Amendment**") by the Board of Directors of the Company, this Amendment together with the existing Bylaws of the Company shall constitute the Bylaws of the Company. Except as expressly modified hereby, all other terms and provisions of the Bylaws in effect prior to the adoption of this Amendment shall remain in full force and effect; provided however, to the extent of any inconsistency between the provisions of the Bylaws in effect prior to the adoption of this Amendment and the provisions of this Amendment, the provisions of this Amendment shall control.

Section 3.2 of the Amended and Restated Bylaws of OP Bancorp is amended in its entirety and restated to read in full as follows.

Section 3.2 Number and Qualification of Directors.

(a) The authorized number of directors of the corporation shall not be less than seven (7) nor more than thirteen (13) until changed by amendment of the Articles of Incorporation or by a Bylaw amending this Section 3.2 duly adopted by the vote or written consent of holders of a majority of the outstanding shares entitled to vote, *provided*, *however*, that if the minimum or fixed number of directors is five (5) or more, an amendment reducing the fixed number or minimum number of directors to a number less than five (5) cannot be adopted if the votes cast against its adoption at a meeting, or the shares not consenting in the case of action by written consent, are equal to more than sixteen and two-thirds percent (16-2/3%) of the outstanding shares entitled to vote. No amendment may change the stated maximum number of authorized directors to a number greater than two times the stated minimum minus one. The exact number of directors with in the range of authorized directors shall be fixed from time to time, within the limits specified in the Articles of Incorporation or in this Section 3.2, (i) by a bylaw or amendment thereof duly adopted by the vote of a majority of the shares entitled to vote represented at a duly held meeting at which a quorum is present, or by the written consent of the holders of a majority of the outstanding shares entitled to vote, or (ii) by resolution adopted from time to time by the Board of Directors.

(b) Notwithstanding Section 3.3 of these Bylaws and as provided in this Section 3.2(b), any person serving as a director shall submit his or her notice of retirement no later than sixty (60) calendar days prior to attaining age 75, which retirement shall become effective upon the earlier of the date stated in such notice or on the director's seventy-fifth birthday. No person may be nominated or may stand for election or reelection to the Board of Directors if a retirement in accordance with the preceding sentence would occur within four (4) months after the annual meeting at which such election is to be considered by the shareholders. Any nominee for election as a director shall meet all qualifications for service as a director as set forth in these Bylaws. The Board of Directors by a majority vote of the authorized number of directors may waive any of the requirements of this Section 3.2(b) with respect to any director or nominee for election or reelection to the Board of Directors.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-224487 on Form S-8 of OP Bancorp of our report dated March 15, 2021 relating to the financial statements appearing in this Annual Report on Form 10-K.

/s/ Crowe LLP

Costa Mesa, California
March 15, 2021

Exhibit 31.1

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) OR 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Min J. Kim, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2020 of OP Bancorp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2021

By: /s/ MIN J. KIM

Min J. Kim
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO
RULES 13a-14(a) OR 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Christine Y. Oh, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2020 of OP Bancorp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2021

By: /s/ CHRISTINE Y. OH

Christine Y. Oh
Executive Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of OP Bancorp (the "Company") on Form 10-K for the period ending December 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Min J. Kim, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: March 15, 2021

By: /s/ MIN J. KIM

Min J. Kim
President and Chief Executive Officer

Exhibit 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of OP Bancorp (the "Company") on Form 10-K for the period ending December 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christine Y. Oh, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: March 15, 2021

By: /s/ CHRISTINE Y. OH

Christine Y. Oh
Executive Vice President and Chief Financial Officer